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B O L I V I A

ESF PAAD

FY 1992 BALANCE OF PAYMENTS

CASH TRANSFER PROGRAM
(511-0604)

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PAAD FOR FY-1992

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I. INTRODUCTION

This PAAD follows closely the outline of the FY-91 PAAD and updates the Concept Paper completed in October, 1991. It also provides a much fuller analysis of economic trends, the progress achieved in the areas of eradication, interdiction and alternative development, and documents the findings of the economic analysis through data presented in 17 tables (appended). While trends in the main economic variables, as well as the history of the eradication-alternative development program will be briefly reviewed, the emphasis of this PAAD is on developments in CYs 1990-1991, the project's justification or reationale, the major economic problems remaining to be addressed by the GOB, and on the recovery and balance of payments outlook for CY 1992.

II. BACKGROUND, SUMMARY AND CONCLUSIONS

On taking office in August 1985, the Paz Estenssoro government was faced with a chaotic economic situation characterized by hyperinflation, a foreign exchange crisis substantially aggravated by the collapse of tin and petroleum prices, a substantial budget deficit, and a real GDP that had declined each year since 1981.

The government moved quickly to launch a stabilization program as part of the New Economic Policy (NEP). Decree 21060, enacted on August 29, 1985, became the cornerstone of Bolivia's current economic policy. It freed all prices; completely opened the economy to the free movement of goods, services and capital; cut government expenditures; froze public sector wages and investment; raised prices of public sector goods and services to cover costs; devalued the Bolivian peso by 93% and unified the exchange rate. Within weeks of introducing the New Economic Policy, the rate of increase of the consumer price index declined precipitously. The general consumer price index presented in Table 1 shows that the annual average rate of inflation, which peaked at 11,750% in 1985, declined to 14.5% in 1991.

After several years of relative economic stability, the new government that took over in August 1989 inherited a deteriorating economic situation. Owing largely to the forthcoming election, the Paz Estenssoro government had acted passively during the first half of 1989 on many pending economic issues, while the private sector had come to a standstill owing to uncertainty over the continuation of the New Economic Policy by the newly elected president. This wait-and-see attitude extended to the international institutions.

Even after the new government assumed power, this uncertainty continued. The Paz Zamora government had to act, first on the international front to obtain the support of the international financial organizations, and next on the domestic front, to reassure the Bolivian private sector.

In September 1989, the new government reached agreement with the IMF on the overall management of the economy. Almost simultaneously, Bolivia and Argentina cancelled each other's mutual debts, which resulted in an annual reduction of Bolivia's external debt service payments of about $55 million and a 20% reduction in its total debt outstanding. The cost to Bolivia was foregoing payment by Argentina for some $313 million, mostly for arrears for gas deliveries.

In March, 1990, Bolivia renegotiated $284 million, or about 17% of its $1.7 billion bilateral debt, under the auspices of the Paris Club. Bolivia received "Toronto Debt Relief Terms", extended heretofore only to the sub-Saharan countries. The GOB negotiated additional Paris Club debt relief under the new Trinidad terms amounting to $216 million in January, 1992, subject to extension of the current ESAF Program with the IMF.

Even more significantly, in August, 1991, the US cancelled $341.3 million of GOB bilateral debt owed to the USG, which represented "all debt owed by the Government of Bolivia to the Government of the USA on assistance loan arrears..." On that same date, the USG also reduced the GOB's obligations on loans contracted under the PL-480 Title I Program from $38.4 million to only $7.7 million. For its part, the GOB agreed to contribute the equivalent of $20 million in local currency (at the rate of $2.0 million a year) over a ten-year period to an environmental improvement fund.

Net international reserves, which had stood at only $19 million on December 31, 1989, increased to $132 million as of December 31, 1990, and to $200 million as of December 31, 1991, realizing a net gain of $265 million since the new government assumed power (Table 7). Money supply (M1) increased by 3.1% during 1989 (December to December), by 40% in 1990, and by 34% in 1991 (Table 3).

The deficit of the consolidated non-financial public sector as a percent of GDP declined from 5.4% in 1989 to 3.3% in 1990 and is estimated at 3.5% for 1991 (Table 9), most of which was financed with donor loan disbursements. The savings on current account increased from 1.0% of GDP in 1989 to 2.5% in 1990 and to a projected 3.5% in 1991 (Table 9). Total public sector investment spending in real terms increased by 5.6% in 1989, remained unchanged in 1990, and is estimated to have increased by 4% in 1991. It is running at the rate of $370 to $430 million a year, approximately in line with historical levels (Table 10).

Partial restoration of confidence in the government was reflected in the behavior of bank deposits. These increased by 24% (in dollar terms) in 1989 (December to December), by 37% in 1990, and by 48% in 1991 (See Table 6). However, some 82% of total deposits consist of dollars, and are mostly in the form of 30 to 90 day time deposits, indicating that the boliviano still fails to perform the "store of value" function of money.

Real GDP is estimated to have grown by 2.6% in 1990 and by 4.1% in 1991. This would permit a 1.9% increase in 1991 real per capita GDP, the largest increase in this indicator since 1980.

A number of factors are continuing to impede a more vigorous recovery. These include the Central Government's financial situation (which suffers from serious structural problems), serious weakness in the financial system accompanied by credit tightness and high interest rates, continuing delays by Argentina in settling its arrears, and conflicting signals from government ministers with regard to government policies which generate uncertainties in the private sector. The government has been addressing several of the structural impediments to economic reactivation, but much remains to be done (described in Sections VIII and IX).

Implementation of the Mission's Alternative Development Program has exceeded expectations. Although illicit coca exports as a percentage of legitimate exports remains high (37% in 1991, compared to 46% in 1988) we expect such exports to decline to less than one-third of legitimate exports by 1993. Whereas new, non-coca crops planted in the Chapare (with USAID assistance) averaged just over 900 ha a year over 1985-1990, 2,950 ha were planted in 1991, and 4,000 ha are expected to be planted in 1992. Moreover, on-going USAID activities had created nearly 3,600 jobs by the end of 1991, plus about 17,000 temporary jobs, most of them in the Department of Cochabamba. Non-traditional export sales attributable to USAID assistance in 1991 amounted to about $12 million.

The Mission proposes that a goal of up to two thirds of total FY 1992 ESF resources be attributed to private sector productive imports from the U.S., and that the remaining one third be made available to support the GOB's on-going debt reduction program for obligations with the U.S. Government and multilateral institutions such as the IDB, the IBRD, the IMF and the CAF. Local currency generations will be programmed to contribute to the USAID Local Currency Trust Fund, Counterpart to AID, other donor and critical GOB projects, and reduction of public sector domestic credit obligations with the Central Bank.

The GOB substantially complied with the conditionality agreed to under the FY 1991 ESF Program. The 3,500 ha eradication target for disbursement of the second tranche was achieved in August, 1991. Unfortunately, by January 31, 1992, the GOB had eradicated only 6,010 ha of an indicative 7,000 ha target for December 31, 1991. A proposal for proportionate disbursement of $15.8 million of the $22 million third tranche was forwarded to Washington in February, 1992.

As in prior year PAADs, the focus of the 1992 conditionality will again relate to compliance with coca eradication targets and other narcotics related matters. Macroeconomic conditionality will be addressed through appropriate indications of adherence to the over-all macroeconomic framework needed to stimulate the increased trade and

investment necessary for sustaining economic recovery and the GOB's alternative developmenmt strategy.

III. PROJECT RATIONALE

The basic rationale for the proposed ESF balance of payments assistance program for FY 92 is as follows:

-1. The ESF program has been, and will continue to be, a key USG instrument for encouraging continued GOB cooperation in the area of narcotics control. As described in detail in Section X below, GOB-USG cooperation has resulted in the destruction of a substantial number of laboratories and processing facilities, seizure of a significant number of planes, vehicles and houses, as well as substantial amounts of coca leaf, base, paste and hydrochloride and in the arrest of some of the most important narcotraffickers in Bolivia. The continuing progress of the law enforcement and eradication program is essential to the Mission's Alternative Development Program owing to the need to depress the price of coca and deny coca producers ready access to market outlets.

- 2. Allowance must also be made for the loss of income and foreign exchange earnings resulting from the joint GOB/USG effort to reduce and eventually eliminate the country's reliance on the production and exportation of cocaine. The foreign exchange requirement arising from (1) the need to compensate the GOB for such losses, and (2) to undertake investment in alternative income and employment generating activities to gradually replace earnings from coca, is not included in our balance of payments projection for 1992 presented in Table 14. The Mission estimates that in 1991, the country's net foreign exchange earnings from coca/cocaine exports, after deducting earnings kept abroad, is on the order of $100 million. While this estimate is admittedly based on uncertain data, earnings from this source are substantial and must be gradually replaced as the country is weaned from coca as a result of the successful joint GOB/USG interdiction effort (described in Section X). The Mission informally estimates the requirement to compensate for the loss in foreign exchange earnings and for alternative investment to fall within the range of $500 million to $800 million over a five-year period, or at an average annual rate of $100 million to $160 million during this period. The GOB's estimate is considerably higher.

-3. A second high Mission priority is to maintain continued US support for Bolivia's democratically elected government which has shown considerable political courage in taking the necessary steps to stabilize the economy, eliminate government controls and establish a more favorable environment for growth in the private sector. While relative economic stability has been achieved and modest GDP growth restored, the real per capita GDP, which declined by some 25 percent in real terms over 1980-86, has not yet achieved sustainable recovery. The GOB continues to require substantial donor resources to consolidate the gains achieved, expand its public investment program and step up its long-term effort to undertake needed structural changes and restore the confidence of the private sector.

-4. This ESF program will contribute scarce foreign exchange resources to help the country finance imports of raw materials, spare parts, intermediate and capital goods from the United States and to service external debt with the U.S. Government and multilateral donors. Boosting the country's foreign exchange resources is essential to cover the import requirements associated with GDP growth. When US balance of payments assistance is used for debt service, more dollars are available for Bolivian importers, thus contributing to stabilization and faster economic growth by increasing the available supply of productive inputs. Over 1980-86, the real GDP dropped by 13% and real per capita GDP by about 25%. Growth during 1986-90 was at the sluggish rate of 2.1% to 3.0% annually, too low to permit any recovery of per capita income. It is essential that this rate be stepped up. The case for balance of payments support is further strengthened by the need to compensate for losses to the Bolivian economy resulting from the fall in the prices of tin and natural gas. Deterioration in the terms of trade in 1990 and 1991 amounted to about 11.5%, and may exceed an additional 12% in 1992.

Bolivia's natural gas sales contract with Argentina is expected to expire on May 3, 1992. While a new contract is expected to be negotiated, the new price of natural gas is expected to be up to two-thirds below the price currently prevailing.

- 5. The need also exists to increase and stabilize the Central Bank's international reserves position. While net international reserves recovered to $200 million as of December 31, 1991, about 37% of this amount, or $74 million, is accounted for by the Central Bank's holdings of short-term (60 to 90 day) certificates of deposit made possible by the offer of relatively high interest rates , and thus does not reflect a significant strengthening of the country's balance of payments position (See Table 8). In addition, another 48%, or $96 million, of the Central Bank's net international reserves consists of counter-trade retention credits with Argentina (usable only to import Argentinian goods) and of Bolivia's credit account with the Fondo de Integración y Desarrollo, which must be spent for approved regional investment projects. Neither of these items represent liquid foreign exchange that can be drawn upon in an emergency. If these three items are deducted from the Central Bank's net international reserves of $200 million registered on December 31, 1991, we are left with a figure of $30 million, equal to about seven day's worth of projected 1992 imports.

- 6. Finally, the ESF program generates local currency funds needed to fund key USAID projects, including those for the Alternative Development Program (i.e. the Cochabamba Regional Development Project), Strengthening Financial Markets, Privatization, Export Promotion, the Micro Enterprise Project, Rural Roads and Rural Electrification. In addition, significant amounts of ESF generated local currency funds aremade available as GOB counterpart for other multilateral donor projects, thus enabling these donors to disburse an amount of foreign exchange equal to some three to four times the amount of counterpart

provided. Utilization of local currency funding in FY 92 is shown in Section XII (Proposed Use of Local Currency Generations). Failure to generate these funds would force a significant reduction or postponement of the Mission's program; as well as impede implementation of other donor projects dependent on GOB counterpart contributions funded with USAID generated local currency funds.

In conclusion: Continued balance of payments assistance supports the basic goals of USG policy in Bolivia, which are: (a) support for a stable and democratic government and institutionalization of the democratic process, (b) narcotics control, and (c) private sector led economic recovery and promotion of self-sustaining economic growth. The GOB's basic economic policies and priorities are fully in line with the recommendations of the USG, other donor countries, the IMF and the IBRD, as evidenced by the strong support for the GOB program obtained at the November 1990 and November 1991 Consultative Group meetings in Paris, as well as by the substantial and continuing support to Bolivia provided by the IMF under its Enhanced Structural Adjustment Facility. Continued international donor assistance to the GOB's stabilization and recovery efforts is basic to the attainment of the USG's narcotics and democracy-related objectives.

IV. STABILIZATION PERFORMANCE AND PROSPECTS

A. Prices

The average annual inflation rate declined from nearly 12,000% in 1985 to 276% in 1986 and to a range of 15% to 17% annually during 1987-90. In 1991, the December over December inflation rate for the year reached a low 14.5%, though the average inflation rate rose to 21.4% (see Table 1). Thus, while relative price stability has been achieved, it is still far from complete.

B. Exchange Rates

Following a 93% devaluation of the Bolivian peso in 1985 when the stabilization program was implemented, the spread between the official and parallel exchange rates was rarely more than a percentage point. The official exchange rate rose gradually from 1,589,567 pesos bolivianos to $1 in December 1985, to 3.75 bolivianos[1/] in December, 1991. The increase during the year ending in December 1991 was 11.1%, less than the 14.5% rate of inflation during the recent twelve-month period. However, since the US inflation rate was 3.1% during the same period, the real value of the boliviano was virtually maintained in 1991. The difference between official and parallel market exchange rates was consistently less than 1% during 1991.

1/ 3,750,000 pesos bolivianos.

If a longer period is considered - i.e. 1986 through 1991 - we find that the dollar/boliviano exchange rate was adjusted continuously to reflect the relative movement of the price levels in Bolivia and the U.S., thus approximately maintaining the real value of the boliviano in relation to the US dollar. More importantly, according to the latest available IMF estimates on the basis of a 15 currency basket of Bolivia's major trading partners, the boliviano experienced a real depreciation (in relation to this currency basket) of about 23% between 1986 and March 1991.

C. Money and Credit

To stabilize the price level, the Paz Estenssoro government reduced drastically the annual rate of increase of M1 (currency plus demand deposits) from 5,900% in 1985 to 83% in 1986, 40% in 1987, 35% in 1988 and only 3.1% in 1989 (see Table 3). This performance clearly reflects the efforts of the GOB to control inflation. Unfortunately, this reduction was reversed in 1990 and 1991, when M1 increased by 40% and 34%, respectively (see Table 3).

Following the same pattern, the rate of increase of M2 (M1 plus time, savings and foreign exchange deposits) declined from 7,200% in 1985 to 182% in 1986, 43% annually in both 1987 and 1988, and 33% in 1989, but rose back to 48% in 1990 and 55% in 1991.

The deceleration in the rate of increase of money supply over 1985-89 resulted in large part from the reduction in the rate of increase of (gross) bank credit extended to the consolidated public sector, down from 18,500% in 1985 to only 11% per annum in both 1986 and 1987, 17% in 1988, 19.5% in 1989 and 21% during the twelve-month period ending in September 1991 (see Table 4). The rate of total bank credit expansion to the private sector also showed drastic declines, from 15,500% in 1985 to 131% in 1986, 45% in 1987, 35% in 1988 and 42% in 1989 (Table 4). It was still 37% during the twelve-month period ending in September 1991, a rate still too high to be consistent with monetary and price stability.2/ This expansion was financed by the commercial banks with their own resources and not by central bank credit, which actually declined over 1990-91 (see Table 5).

As a result of growing public confidence, the economy is now experiencing a a period of rapid "remonetization." Between 1982 and 1986, the economy "demonetized" drastically, as reflected in the decline of the ratio of money supply to GDP (or conversely, in a sharp increase in the velocity of circulation). The decline in the M/GDP ratio

2/ Moreover, a major share of this credit expansion to the private sector went to finance commercial and service activities, as well as private consumption.

represented the public's reluctance to hold bolivianos, and its preference for other assets, especially US dollars. The proportion of M1 to GDP declined from 15.3% in 1984 to only 3.4% in 1986. In 1987, 1988, 1989, 1990 and 1991, this proportion recovered to 3.9%, 6.1%, 5.8%, 6.9% and 7.4%, respectively. Similarly, M2 declined from 18.5% of GDP in 1984 to 7.8% in 1986. In 1987 and 1988, this ratio recovered to 9.5% and 15.5%, respectively. In 1989, 1990 and 1991, the M2/GDP ratio further increased to 17.1%, 23.4%, and 28.7%, reflecting the public's willingness to build up bank deposits. This behavior shows that Bolivia's financial system is recovering some of its "financial depth", owing partly to the restoration of public confidence and partly to still high positive interest rates.3/ Nevertheless, almost all of the country's time deposits continue to be in dollars or tied to the dollar/boliviano exchange rate.

D. Banking System Deposits

Mainly as a result of the "dedollarization"4/ of November 1982 and the hyperinflation of 1984-85, the real value of bank deposits and the overall savings of the population contracted drastically through 1985. As of December 1984, deposits in the banking system amounted to only $45 million in dollar terms, down from $556 million at the end of 1980 (see Table 6). As of December 1990, the dollar value of total bank deposits had risen to $800 million ($244 million above the 1980 peak of $556 million), and rose further to $1.18 billion at the end of 1991.

However, most of these deposits are denominated in foreign exchange or, in the case of boliviano deposits, conditioned upon a "maintenance of value" clause (i.e. indexed to the value of the dollar). As of December 31, 1991, dollar and boliviano with maintenance of value deposits constituted 89% of total bank deposits.

This highly skewed distribution of deposits in the form of foreign exchange reflects the continued "dollarization" of the economy. Foreign exchange deposits (including dollar deposits and bolivianos with

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3/ Average effective annual commercial bank nominal lending rates for the two-week period ending January 30, 1992, for loans denominated in Bolivianos was 25.0% Average effective annual nominal lending rates for loans denominated in U.S. dollars was 19.5%. For 1991 as a whole, average effective lending rates, adjusted for inflation, were 24.2% for loans denominated in Bolivianos and 17.2% for loans denominated in U.S. dollars.

4/ Decreed by the Siles Zuazo Government, it entailed the forced conversion of all dollar deposits into bolivianos, and permitted the settlement of all dollar obligations in bolivianos at a highly overvalued exchange rate.

a "maintenance of value" clause) increased from 29% of total deposits at the end of 1985 to 89 percent on December 31, 1991 (Table 6). This fact and the short term nature of time deposits - almost 93% are for 90 days or less - reflects the public's continuing uncertainty, and constitutes an impediment to the provision of longer term credit (most loans are for 30 to 90 days) and to the reactivation of the economy. Nevertheless, the recovery of bank deposits has been steady since 1985 and should continue as public confidence - and the economy - continue to recover.

E. International Reserves

Hyperinflation and overvaluation of the exchange rate during 1980-1985 put heavy pressure on the balance of payments and international reserves. Net international reserves were consistently negative during 1980-1983, owing, in part, to the large increases in internal credit and to the overvaluation of the Bolivian currency (See Table 7). This trend was reversed in 1984, when the net international reserves of the Central Bank increased from a negative $45 million in December 1983 to $104 million in December 1984. In 1986, total net international reserves recovered to $247 million as a result of a considerable increase in foreign economic assistance disbursements, and an improved financial situation, produced by tight fiscal and monetary policies and a much more realistic exchange rate. A sharp drop in net international reserves occurred in 1989 partly as a result of debt repayment to two US owned petroleum companies, Tesoro and Occidental, which drew down some $110 million in retention credits (payments tied to purchases of Argentine goods, which are counted as part of Bolivia's international reserves as long as they are not used). As a combined result of these drawdowns and greater public demand for foreign exchange due to the uncertainty created in the presidential election, net international reserves declined to less than $19 million as of December 31, 1989 (Table 7).

The Central Bank's net international reserves recovered to $132 million by December 31, 1990, and to $200 million by December 31, 1991, in large part as a result of the Central Bank's policy of selling Certificates of Deposit (CDs) at high discount rates (ranging between 15 to 17% during 1990 and 8% to 14% during 1991), which attracted a considerable amount of dollars as well as bolivianos with a "maintenance of value" clause. If we analyze the composition of the Central Bank's international reserves as of December 31 1991, we find that out of the $200 million in net international reserves, $74 million consisted of CDs denominated in dollars, and another $99 million consisted of dollar-denominated assets that are not readily convertible in hard currency (as, for example, Bolivia's counter-trade credits with Argentina and claims on the Fondo de Integración y Desarrollo which can be used for approved projects only). In fact, 85% of the country's net international reserves (as of December 31, 1991) are either matched by Central Bank short-term obligations or do not actually consist of dollars or other hard currency reserves (see Table 8).

F. Fiscal Deficit of the Consolidated Public Sector

The major policy instrument behind price stabilization has been a relatively conservative fiscal stance since the New Economic Policy was implemented.

In 1980, the fiscal deficit of the consolidated non-financial public sector amounted to 7.8% of GDP, of which 32% was financed by domestic credit (see Table 9). The period of hyperinflation (1984-1985) dismantled the tax base and gave way to inefficiency, corruption, and to nearly complete loss of control of the state's finances. As a result, the fiscal deficit increased to 26.5% of GDP in 1984 (Table 9). This deficit was 89% internally financed as a result of the reluctance of the international community to disburse significant amounts to a country in such a chaotic situation. As a result of the implementation of the New Economic Policy the fiscal deficit declined to 8.2% of GDP in 1987, 6.4% in 1988, 5.4% in 1989, and 3.3% in 1990. These deficits were, to a large extent, financed with external resources. In 1991, the deficit rose moderately to an estimated 3.5% of GDP. All but 11% of the 1991 deficit was financed by donor loan disbursements. Net domestic financing of the consolidated public sector, including the financial public sector, was constrained to about 1.0% of GDP.

Reductions of the fiscal deficit during the past three years are mainly the result of an increase in public savings, as public investment has been virtually flat. In terms of constant 1988 bolivianos, public savings increased by 40% in 1989, 251% in 1990 and 7% in 1991 (see "Current Account Surplus" in Table 10). Real public investment levels remained virtually flat - they increased at an average annual rate of 3% during the same period. On the revenue side, three factors were mainly responsible for this improvement: (1) the sharp increases in the internal sales price of gasoline, a major source of government revenue; (2) the increase from 2.5 to 3.0% in the rate at which the net worth of business is taxed (in lieu of a corporate income tax); and (3) more effective tax administration, with collection efforts more focused on medium-size tax payers.5/ Still, there continues to be substantial tax evasion, especially by the self-employed; as well as substantial corruption in the tax collection apparatus, including Customs Administration.

In 1991, both current revenues and current expenditures increased by about 6.8% in real terms. On the revenue side, tax revenues increased by 5.6% in real terms, whereas income from state enterprises increased by almost 11.5%, also in real terms. On the expenditure side, the IMF found that discipline was being maintained, noting that "the wage bill for the non-financial public sector is projected to increase by less than 1% in 1991".6/ In fact, official preliminary figures show a 1%

5/ International Monetary Fund. Bolivia - Staff Report for the 1991 Article IV Consultation, Page 14.

6/ Ibid., page 14.

real increase in personal services (see Table 10).

Debt service payments (interest and amortization paid) are estimated to have remained at about $124 million, equivalent to some 2.6% of GDP. Although expenditures on other defined line items have either remained virtually the same or even declined, "other expenditures" is estimated to have increased by more than 200%, to $144 million. It is suspected that part of this expenditure account reflects unaccounted for increases in public sector salaries.

Despite the general improvement in the current account situation and the fiscal deficit of the non-financial consolidated public sector as a whole, the Central Government still faces a serious structural problem: its current revenues are simply too dependent on transfers from natural gas export proceeds to Argentina. In 1991, revenues from the hydrocarbons sector represented some 51% of total Central Administration revenues. In fact, without them, current revenues would not be sufficient even to cover salaries, subsidies to the university system, pensions, the social security subsidy, the transfer to the Ministry of Agriculture for coca eradication operations, and minimum debt service charges (to multilateral and official bilateral donors). There is little left over for government administrative expenses (other than salaries of direct hire personnel), such as acquisition of goods by the Central Government, the purchase of essential contractual services, per diem and travel expenses, food for orphanages and hospitals, supplies for the police and the armed forces, etc. In fact, tax revenues financed only 88% of Central Government salary expenditures during 1991.

It is therefore necessary for the Central Administration to improve revenue performance by improved efficiency in tax collections and broadening the tax base . On the expenditure side, there is a need to substantially reduce the bloated public sector payroll and to improve the efficiency in the use of public resources in general. While government officials are well aware of the need to adopt corrective measures, implementation will be politically difficult owing to strong popular opposition, particularly to measures involving lay-offs of personnel and expansion of the tax base.

In conclusion:: The Paz Zamora government has succeeded in maintaining relative (though not full) price, monetary and exchange rate stability. The Government continues to place major emphasis on the continued implementation of the stabilization program and on restoring private sector confidence and economic growth.

The economy is still in a vulnerable situation as a result of a number of factors, including: (1) the poor state of revenue collections, including a high level of tax evasion; (2) heavy dependence on proceeds from natural gas exports to Argentina that are expected to decline by two-thirds in the fourth semester of 1992; and (3) the continuing slow progress on reducing changes in the price level and the

exchange rate to single digit levels, which impedes the restoration of full confidence in the medium to long-term stability of the boliviano.

V. ECONOMIC RECOVERY

Rapid, sustained recovery of the Bolivian economy is currently the major task that confronts the Bolivian authorities. Although beginning in 1987 the economy reversed its declining trend and growth resumed, progress to date has not been sufficient to permit sustained recovery of real per capita GDP over the medium to long-term.

In July, 1987, the GOB issued Decree No. 21660, commonly known as the Economic Reactivation Decree.7/ This decree was designed to play a key role in putting an end to the prolonged recession that the Bolivian economy had suffered the previous five years. A substantial portion of the decree addresses the main weaknesses of the Bolivian banking system. A development credit line was established in the Central Bank to be channelled through intermediate credit institutions (ICIs). To promote exports, the decree instituted the Certificado de Reintegro Arancelario (CRA) which was intended to take the place of a waiver on import duties on imported goods used in producing the exported products. It created free trade zones and provided a preferential railroad tariff rate for Bolivian exports.

In January, 1990, the Paz Zamora government issued Decree No. 22407 which confirmed the priority given to the maintenance of economic stabilization, and provided incentives to spur economic growth (particularly exports) and addressed some social issues.8/ The decree provides for fiscal, monetary and exchange rate policies to be properly coordinated to maintain economic stabilization and generate confidence in the economy. The decree includes a series of measures designed to foster domestic as well as foreign investments. It encourages joint ventures between domestic and foreign investors, including state-owned enterprises. Tariffs on imported capital goods were temporarily reduced from 10% to 5% for a two-year period. The decree approved the creation of free trade zones and bonded warehouses to be constructed by private concerns for the operation of "maquila" industries. It also authorized the private sector to build and administer customs storage facilities and other related infrastructure to make the administration of customs more efficient.

Even though there is excess liquidity in the banking system, economic reactivation is still being hampered by the financial system's inability to efficiently channel credit to productive enterprises on appropriate terms. Its high collateral requirements which often take the form of urban real estate, its inability to analyze the merit of projects

7/ See FY 1989 PAAD, pages 11-14, for a more detailed discussion.
8/ See FY 1990 PAAD, pages 5-7, for more detailed information.

and the short-term nature of its deposit liabilities cause it to deny credit accommodation to many borrowers with good projects in the "productive sector". Other impediments include the persistent lack of private sector confidence, the confusion created by conflicting signals with regard to government policy issued by ministers of different ideological persuasions, and the slowness of the government to correct a variety of remaining structural problems (e.g. privatization of state enterprises and streamlining bureaucratic procedures).

A. Investment Behavior

Total fixed investment declined much faster than GDP during 1980-85, from 14.3% of GDP to only 7.2%. Economic and political instability were clearly the main causes of this deterioration. In 1986, total investment recovered to 7.9% of GDP. By 1990, total investment is estimated to have increased to about 12% to 13% of GDP (compared with 18% over 1975-79), still too low to support rapid recovery and sustained growth. Gross domestic investment in 1991 is estimated at 14.6% of GDP, of which only 41% was private.

The GOB implemented a public investment program of $388 million in 1990, equal to 8.6% of GDP, about the same as its 1989 level (see Table 10). The public investment level for 1991 is estimated to have reached $437 million, a 13% increase in dollar terms over 1990.

The contribution of the private sector to investment is crucial to the achievement of sustained high growth rates. However, as a combined result of highly limited access to credit, high interest rates, a financial sector in serious difficulty, the continuing upward creep of the price level and the exchange rate, private sector confidence - and private investment - have failed to achieve significant recovery so far. According to IMF estimates, private investment in 1986 hit a low 3.1% of GDP. During 1987-90 period, private investment was between 3.3% and 4.8% of GDP. After dropping to only $235 million in 1990, preliminary official estimates show an increase to $289 million in 1991, equivalent to about 6.0% of GDP.

Economic reactivation is heavily dependent on public investment, which has been insufficient as well. The public sector still does not generate sufficient savings to provide the necessary counterpart to critical donor projects. In addition, the public sector must still improve its administrative and technical capacity in order to productively absorb the larger amounts of multilateral project assistance expected to become available over the next two to three years.

To improve the domestic investment climate, the GOB recently adopted new codes for mining and investment, as well as a new hydrocarbons law, which offer attractive incentives to encourage domestic and foreign investment. The investment code is one of the most liberal adopted by developing countries in recent years, allowing for the free

repatriation of profits and capital invested, free exchange convertibility, the same guarantees against expropriation provided to nationals, and in general, extending to foreign investors the same protection, rights and privileges as are available to national investors.

Six oil contracts recently signed by foreign companies with YPFB are expected to generate investments of about $20 million during the exploratory phases, and up to another $140 million during a five-year period to be devoted to further exploration and development. Similarly, joint venture projects in mining that began in 1991 call for new investment of some $100 million over three years. The GOB has reduced employment in the State mining company by 749 miners, and expects to further reduce mining employment by at least 2,800 employees by the end of 1992.

The Executive has decided to proceed with the privatization of a number of state-owned enterprises. The privatization law has been passed by the lower house of Congress but is currently facing opposition party court challenges and public demonstrations. However, the GOB is resolved to go forward. Complete passage of the law is expected soon and implementation will be initiated during 1992. The GOB expects to have evaluated and have developed privatization criteria for disposing of the national airline and up to eight other public sector companies before the end of 1992.

B. Income Trends

According to official indicators, positive real GDP growth rates occurred each year beginning in 1987. These rates ranged between 2.6% (in 1987) and 4.1% (in 1991). Since the downward GDP growth trend was reversed in 1987, almost all sectors of the economy have expanded. The average annual rates of growth (as measured by value added in constant 1980 bolivianos) for the five-year 1987-1991 period[9/] of the most rapidly growing sectors were: mining (7.6%), construction (4.9%), manufacturing (4.7%), hydrocarbons (2.8%), commerce (2.5%) and transportation and communications (1.9%). The agricultural sector remained relatively stagnant throughout the period except for 1991.

The GOB has estimated GDP growth at 4.1% for 1991. The major sectors expected to contribute to that growth include mining (7.6%), manufacturing (6.7%), electricity and water (6.5%), commerce (5.4%), and transportation and communications (4.0%). Agriculture, the largest sector of the economy, is estimated to have increased some 7.2%, owing primarily to unusually favorable weather conditions.

Real per capita GDP, which declined by some 25% over the period 1980-86, did not recover over 1987-90. However, it is estimated to have grown about 1.9% in real terms in 1991, the first significant increase since 1977.

9/ With 1986 used as the base year.

In conclusion: The pace of economic reactivation, while still slow, appeared to pick up momentum in 1991. Sustained recovery, however, will be impeded by a number of factors, including (1) the continued shortage of critical working capital and credit, except at relatively high real interest rates, on very short term (typically only up to 90 days) and requiring very high collateral; (2) the declining price of natural gas which will impact adversely on both the fiscal and balance of payments situation; and (3) continued slow improvement of investor confidence resulting from infighting among the political parties and the perception that the coalition government may not fully implement consistent supportive policies in the face of growing resistence in some sectors to the government's over-all economic reform program.

VI. EXTERNAL DEBT TRENDS

Bolivia continues to suffer from a large debt service burden, resulting in great pressure on both the GOB budget and the balance of payments. Bolivia must continue to press for relief through debt renegotiation. Paris Club I (held in June 1986) and Paris Club II (held in November, 1988) provided significant relief, but have not reduced debt servicing to multilateral agencies (which is not subject to rescheduling). The GOB had another round of negotiations (Paris Club III) in mid-March 1990 and was able to renegotiate its bilateral debt under favorable "Toronto Debt Relief Terms" extended heretofore only to the Sub-Saharan countries. In January, 1992, Bolivia presented its case in a fourth round of renegotiations (Paris Club IV). GOB authorities negotiated total debt relief of $215.7 million, under favorable "Trinidad Terms", corresponding to a consolidation period of January, 1992, through June, 1993. Concessional debt was reprogrammed to 30 years, with 14 years grace period. Bilateral creditors chose from three options for the refinancing of non concessional debt. Germany, France, the Netherlands and the United Kingdom granted forgiveness of 50% of non-concessional debt due over the period and reprogramed concessional debt to 23 years, with a six-year grace period. Austria, Belgium, Japan and Switzerland reprogrammed non-concessional debt to a 23 year repayment period with reduced interest rates so that the net present value of the rescheduled stream of payments is equivalent to 50% debt reduction. The United States chose to reprogram debt to a 25 year repayment period, with a 14 year grace period, at interest rates to be negotiated, taking into account market conditions.

In addition, the cancellation of a substantial part of Bolivia's bilateral debt to the USG has provided welcome relief. In August of 1991, the US cancelled $341.3 million of GOB bilateral debt, which represented "all debt owed by the Government of Bolivia to the Government of the USA on assistance loan arrears..." On that same date, the USG also reduced the GOB's obligations on loans contracted under the PL-480 Title I Program from $38.4 million to only $7.7 million. For its part, the GOB agreed to contribute the equivalent of $20 million in local currency over a ten-year period to an environmental trust fund.

Bolivia's public debt to the commercial banks has been largely resolved through purchase by the GOB, accomplished at 11 cents on the dollar (the discounted market value), without a requirement for recognizing accrued interest. To date, Bolivia has repurchased commercial debt with a face value of $444 million. The remaining $226 million is expected to be purchased during 1992. AID has made available $6 million under the FY-90 ESF Program for this purpose.

On August 31, 1989, Bolivia considerably reduced its outstanding debt from $4.1 billion to $3.3 billion through the unprecedented cancellation of mutual debts with Argentina. Bolivia's total public sector debt outstanding as of September 30, 1991, totalled $3.37 billion (see Table 12). Note that about 51% of the total debt is owed to multilateral creditors while 42% corresponds to debt owed to bilateral donors. According to the Central Bank, Bolivia's official debt owed to the USG (after the recent debt forgiveness) amounted to just $83 million.

Even after rescheduling focused only on interest and amortization payments actually made or due (mostly to the multilateral agencies), Bolivia paid $245 million in 1989, $228 million in 1990 and again in 1991, and is expected to pay an estimated $215 million in 1992 (See Table 13) (assuming Paris Club IV reschedulings). To put these debt service obligations into perspective, note that the "Total Debt Service to be Paid" ($228 million in 1991 and $215 million in 1992) constitutes 25% and 24%, respectively, of total projected legitimate export earnings (from goods and services) in these years, a heavy burden on the country's foreign exchange resources.

VII. EXPORTS AND THE BALANCE OF PAYMENTS

The evolution of Bolivia's balance of payments during the period 1980-91, with projections for 1992, is presented in Table 14. We shall first analyze the evolution of exports, then discuss trends in the other variables over 1980-91. The final Section will present the Central Bank and AID Mission projections for 1992.

A. Export Performance

Bolivia's exports have been subject to severe shocks in recent years. First, international tin prices declined by 52% between 1985 and 1986. Second, Argentina, Bolivia's only export market for natural gas, was able to negotiate a series of price reductions, viz. a 12% reduction in 1986 followed by another 21% in 1987, and 18% in 1988.

As a result of such adverse trends in Bolivia's terms of trade, the total value of Bolivia's registered exports plunged from $942 million in 1980 to $473 million in 1987, a decline of 50% (Table 14). In 1988, the declining trend was reversed as exports of goods rose back to $542 million, $723 million in 1989 and to $805 million in 1990. Preliminary official information suggests that merchandise exports in 1991 may have declined by about 5%, to $766 million, still significantly

below the level of 1980-81 even in terms of current dollars. Prospects for total export earnings are expected to worsen in 1992 as a result of the expiration of the natural gas contract with Argentina on May 3, 1992. While a new contract is expected to be signed, the negotiated price of natural gas may decline to the world market level (or by roughly two-thirds below the current level), resulting in a proportional decline of earnings from this source.

Given Bolivia's dependence on natural gas, the depressed state of the tin mining export industry and the scheduled reduction of its dependence on coca/cocaine exports, it is essential to diversify the export sector for which non-traditional products offer the best prospects. Non-traditional exports have increased very rapidly the past six years, from only $38 million in 1985 to an estimated $260 million in 1991, representing a more than five-fold (584%) increase over the period (see Table 15). Non-traditional exports are believed to have great potential and could provide important relief to Bolivia's foreign exchange stringency. The Mission is contributing to this endeavor by providing credit and technical assistance through its Export Promotion Project.

B. Trends in Other Indicators over 1980-91

1. Imports declined sharply between 1980 and 1984 (by 27%), recovered to $776 million in 1987, then declined again over 1988-90. They recovered to about $942 million in 1991, or by 29%, attaining almost the same level as in 1981. (Table 14).

2. Total interest payments falling due (prior to rescheduling) rose from $281 million in 1980, to a peak of around $421 million in 1982, then declined to $268 million in 1991 (Line I-3-ii of Table 14). They are projected at $228 million after rescheduling in 1991.

3. International donor loan disbursements declined from $265 million in 1980 to less than $100 million in 1983, rose back to $334 million in 1989, but then fell back to an estimated $255 million in 1991 owing to implementation problems (Line II-B-i of Table 14).

4. The sum of "errors and omissions" and "net short-term capital" include (1) earnings from the informal sector, consisting mostly of earnings from coca exports that found their way into the banking system or financed imports, legitimate as well as smuggled, and (2) illegal imports. These accounts fluctuate widely owing maily to the unstable nature of the activities and economic expectations. Throughout the period 1983-1987, these accounts have been positive. The period 1983-1985 may have reflected capital inflows resulting from increased informal activity, including the production and illegal exports of coca/cocaine. In 1986 and 1987, these accounts may reflect massive capital repatriation as a result of economic stabilization and high

interest rates. From 1988 to 1990, these accounts may have reflected smuggled imports which, to a large extent, may have offset the dramatic decline in legitimate imports during the same period. Estimates for 1991 show a net capital inflow of $64 million (including short-term capital and errors and omissions), and a projected $67 million for 1992.

5. Extraordinary financing consists mostly of the reduction in interest and amortization payments all related to debt renegotiation. It excludes USAID's ESF assistance which is entered under Unilateral Transfers in all years except 1992.10/

C. **The Balance of Payments**

1. The overall balance of payments experienced a substantial deficit every year over 1980-89 (see first line of Section IV, Table 14), although the amounts vary considerably from year to year. For the first time, in 1990, the overall balance (current account plus capital transactions) was approximately in balance, compared with an overall annual deficit ranging between $185 million and $367 million over 1986-89.11/ A deficit of $114 million is estimated for 1991. The main reasons for the improvement in the 1990 and 1991 balance of payments situation (in comparison with 1989) include the following:

(i) A $43 million increase in export earnings in 1991, mostly attributable to minerals and non-traditional products.

(ii) A $26 million increase in official transfers.

(iii) A significant increase in the sum of "errors and omissions", "other capital" and "net short-term capital", from a negative $395 million in 1989 to a positive $60 million in 1991, possibly reflecting (a) capital repatriation (largely motivated by the high interest payments offered by the Central Bank on its Certificates of Deposits), and (b) the fact that some extraordinary debt repayments effected in 1989 (to the Tesoro and Occidental petroleum companies) did not recur in 1991.

10/ The reason for excluding the USG's ESF balance of payments assistance program for 1992 from both Unilateral and Extraordinary Financing is because we want to project the decline in Net International Reserves that would occur without our balance of payments assistance.

11/ Official transfers are included in the current account according to the methodology of the IMF and the Central Bank of Bolivia.

2. Following a cumulative drawdown of $262 million in net international reserves over 1987-89, an increase of $139 million was experienced in 1990 and another $68 million is estimated for 1991 (Table 14, Line IV - c). This is the outcome of the factors mentioned above, as well as of the $96 million increase in "extraordinary financing" resulting from the latest rounds of debt rescheduling.

D. Balance of Payments Projections

The Mission's 1992 balance of payments projection, based on Bolivia's Central Bank data, is also presented in Table 14. Note the following:

. Exports are expected to experience a slight decline of 4% as a result of the sharp decline (62 to 69%) in the price of natural gas sold to Argentina following expiration of the current contract on April 30, 1992. This decline is expected to be partially compensated by increases in mineral and non-traditional exports (the latter by 10% over 1991). Legitimate imports are projected (by the Central Bank and the IMF) to increase by 6% to support the expected rate of growth of the economy and to allow for the world inflation rate.

. The current account is expected to deteriorate substantially in relation to 1991 owing mainly to the projected increase in imports and the reduction of unilateral transfers (line I.B.) if AID's FY-92 ESF resources are not disbursed.

. The total capital account (line II) is expected to improve slightly (by $34 million), mostly as a result of the projected increase in disbursements of loans from international organizations.

. The overall balance of payments deficit for 1992 is projected at $225 million, compared to the $114 million deficit estimated for 1991 (line IV of Table 14). This deterioration is mostly due to the projected increase in the trade deficit and to the fact that we have not included the projected 1992 USAID balance of payments assistance ($66 million) in our 1992 projection.[12/]

. The relatively small projected loss in Net International Reserves in 1992 of about $37 million (line IV-C) allows for the fact that about $239 million in debt servicing will not need to be paid owing to expected debt rescheduling.

12/ Since the analysis in this PAAD is designed to justify the 1992 balance of payments assistance, it is not technically appropriate to include it "above the line" in the 1992 projection.

It should not be inferred from the modest $37 million loss in net international reserves projected for 1992 that there is no adequate economic justification for the requested $66 million in balance of payments assistance. The following considerations should be borne in mind:

1. As previously noted, the build-up of the Central Bank's net international reserves to $200 million as of December 30, 1991, was obtained, in large measure, owing to the Central Bank's policy of offering high interest rates on certificates of deposit (CDs) to the public. These CDs are all short-term obligations, mostly for periods of 30 to 90 days. Usually, short-term obligations must be deducted from gross international reserves to arrive at net reserves. In this case, standard accounting procedures do not require the deduction of these short-term obligations because they are due to Bolivian residents, not to foreign creditors. If the CDs and other illiquid or non-convertible assets are deducted from the net international reserves of $201 million registered on December 30, 1991, we are left with only $28 million of liquid convertible reserves. (See Table 8 for a breakdown of the Central Bank's net international reserves).

2. What is the level of net international reserves that Bolivia should have? Applying the IMF's rule of thumb of three months' worth of imports, the desirable level would be around $235 million. This amount was obtained by considering only the $941 million in legitimate imports estimated for 1991, abstracting from smuggled imports (possibly amounting to about $150 million). Since the country's net liquid international reserves, after discounting the CDs, retention credits and the credit account with the FID are deducted, is only $28 million, a further build-up of the country's current net international reserves is considered most desirable. The freeing of the country's net international reserves from dependence on short-term CDs sold to the public at very high interest rates is an urgent requirement.

3. The balance of payments projection for 1992 in Table 14 makes allowance only for the increase in imports associated with GDP growth (i.e. an increase in imports of 6% in current dollars or about 3% in constant dollars). It is in line with the import projection of the IMF and the Central Bank. However, it does not make explicit allowance for the additional imports that might result from the alternative development program as such impact is very hard to estimate. The impact of this program on the balance of payments is expected to be twofold: a direct effect resulting from increases in the demand for imported seeds, agro-chemicals, and equipment needed in the process of substituting legitimate crops (and other activities) for coca; and an indirect effect resulting from the increase in the demand for consumer goods imports associated with the increase in money income generated by the alternative development program. In addition, there is the loss of the country's foreign exchange earnings resulting from the gradual reduction in coca/cocaine exports which must be expected to occur before the alternative development program can generate new exports.

The detailed methodology underlying the projections, as well as the sources of data, are presented in the footnotes to Table 14.

VIII. RECENT ADJUSTMENT PERFORMANCE

Before describing the major economic problems remaining to be addressed and the additional structural reforms that the IMF and the World Bank are recommending, we will briefly review the major adjustments and reforms that the GOB has undertaken since beginning implementation of its New Economic Policy in August of 1985. While the GOB still has a long way to go to resolve its structural problems, it should be noted that it already has considerable accomplishments to its credit. Major adjustment measures adopted include the following:

1. Consistent and sustained implementation of a comprehensive macroeconomic framework for the past six years, including:

- freeing of private sector prices, including interest rates;
- substantial increases in the prices of publicly produced and controlled goods and services so as to cover costs and investment requirements;
- elimination of all foreign exchange controls and the establishment of a market auction mechanism to determine the official exchange rate;
- elimination of quantitative restrictions and most licensing requirements for imports and substituting a low uniform tariff (now 10% for all non-capital goods, and 5% for capital goods) for the much higher and complex tariff structure that was previously in force;
- lowering government expenditures to levels that can be largely financed from available revenues and donor resources.

2. Implementation of a program of tax reform that simplified a highly complex tax structure, with reliance now placed on just a few major taxes that are relatively easy to administer and understand. This reform has contributed significantly to recent increases in tax collections.

3. Reform of banking legislation that set up a supervisory body (the Superintendency of Banks) with genuine enforcement powers, along with the promulgation of a set of rules to be followed in lending operations to restore banks to a sound operating basis. A new banking law has also been drafted and submitted to the Congress.

4. Adoption by the Congress of a law creating the Integrated System of Financial Administration of Government control (SAFCO), designed to strengthen and widen the scope of government control over expenditures and provide autonomy for the Central Bank. The government also prepared a revised tax code (not yet approved by the Congress) designed to reduce tax evasion by increasing penalties and improving the effectiveness of control systems.

5. Liquidation of a number of money-losing state banks, including the Agricultural Bank, the Mining Exploration Fund and the Mining Bank; as well as imposition of stringent restrictions on the operations of the government-owned commercial bank.

6. Secured passage of key legislation to foster private sector investment, including a new investment code, mining code and hydrocarbon legislation. The new investment code is one of the most liberal in the world, providing foreign investors with all the guarantees, protection and privileges extended to domestic investors.13/

IX. ADJUSTMENTS REQUIRED TO SUSTAIN ECONOMIC RECOVERY AND GROWTH

Complete restructuring of Bolivia's economy and removal of remaining obstacles to sustained recovery and growth are of a medium to long term nature and will require time to resolve. Among the major remaining changes needed to assure rapid, sustained economic recovery are: thorough restructuring of the public sector to improve its efficiency and continued progress on raising the level of public sector savings to finance investment projects; consolidation of the achievements of the stabilization program resulting in reducing the rate of inflation to low, single digit levels; diversification and expansion of the export sector, resulting in reducing pressure on the balance of payments and the exchange rate; appropriate reform of the banking system; rebuilding private sector and investor confidence in the government and its policies; substantially improving the country's highly deficient physical and social infrastructure; and massive restructuring and improvement of the education system, particularly primary education.

13/ The IMF noted the following in its Staff Report for the 1991 Article IV Consultation: "With these laws, private investors may enter into joint ventures with the Bolivian Petroleum Corporation and the Bolivian Mining Corporation; the geographical area eligible for private exploitation and development has been expanded; private oil companies are permitted to export natural gas if they find a market; and investment in, and management of, other petroleum industry activities and services are opened up to the private sector. These laws also introduce a new tax regime enabling multinational enterprises operating in these sectors to offset Bolivian taxes against their tax liabilities in home countries". (Page 11).

A. Improved Public Finances: Although a significant improvement has been realized since the hyperinflation years, the country's public finances continue to be weak. The Central Government needs to improve fiscal performance, basically through widening the tax base, improving tax administration, and cutting current expenditures through restructuring and reduction of the public sector payroll. At the same time, salaries of remaining public servants must be raised. Revenue collections of the Central Government in recent years have barely been sufficient to cover current expenditures and public savings have not been generated sufficient to finance needed public investment. The relatively small current surplus achieved in the consolidated non-financial public sector (about Bs 400 million in 1991) was obtained from state enterprises such as the YPFB (petroleum products) and ENTEL (communications), not from the ordinary revenues of the Central Government.

B. Approval of Privatization Legislation: Although the privatization law was submitted by the Executive for Bolivian legislative approval, it has been passed by only one house. The legislation has encountered opposition party court challenges and has been the object of public demonstrations. However, the GOB is resolved to go forward and is not expected to negotiate. Final passage of the law is expected soon and implementation has been initiated through contracts to determine market asset valuations.

C. Depoliticize the Public Service: The traditional (and current) approach is to fire all public sector personnel in positions of importance upon the assumption of power of any new government aligned with an opposition party. This generates considerable delays and inefficiencies in project preparation and implementation, in addition to complicating day to day governance.

D. Restructure the Economy: Continued restructuring of the economy is essential if the country is to be able to increase and sustain rapid GDP growth and eliminate recurrent balance of payments disequilibrium. Work is needed in strengthening export and investment incentives for the private sector. Specifically:

. Diversification: Exports, particularly nontraditional exports, need to be expanded and diversified through facilitating access to pre-embarkation and production credit, increased access to medium-term credit, technical assistance to producers, streamlining of bureaucratic procedures that interfere with incentives to export, and improvement of critical infrastructure.

. Foreign investment needs to be promoted through improved incentives. The recent adoption of a substantially liberalized investment code will help; so will the removal of remaining hurdles in effective implementation of the recently approved mining code and the new hydrocarbons legislation.

. Access to the banking system's deposit base should be improved. The high collateral for loans demanded by banks reflects Bolivia's fragmented, decapitalized and inefficient financial system. There continue to be difficulties in access to credit for medium and long term investment purposes, despite high banking system liquidity. There is need to improve the banking system's efficiency to assure high levels of capacity utilization and increased private investment if reactivation is to occur and be sustained.

. Improve and expand the transportation system: Public sector investment must play a key role in improving and expanding the country's very deficient physical and social infrastructure which constitutes a serious obstacle to the development of rural areas with good agricultural potential and results in high transportation costs that discourage export-oriented activities.

E. Deal with the country's unemployment problem: These problems have been further exacerbated since 1985 by the depression in the tin mining industry which resulted in the discharge of some 35,000 to 40,000 miners, and would be further aggravated if the public sector were to discharge its surplus employees. There is no solution in sight. The long-term outlook is rendered more dismal by the still high 2.2% rate of population growth and the absence of an all-out GOB effort to encourage and facilitate family planning (though some progress has been achieved in recent years in changing the Government's hands-off attitude in this area).

F. Renegotiation of Bolivia's public sector debt: Bolivia has "repurchased" most of its commercial debt. Its debt with bilateral donor governments - mostly South American governments and Paris Club members - is being renegotiated at successive Paris Club meetings and bilaterally. The forgiveness of most bilateral US debt has contributed significantly to lightening the GOB's burden in this area. However, Bolivia's debt to the multilateral agencies is not renegotiable. Analyses of Bolivia's remaining debt and debt service obligations (Tables 12 and 13) and of its balance of payments (Table 14) show that this problem will continue to be a serious burden for Bolivia, particularly its obligations to multilateral credit organizations, since annual debt service is expected to continue to rise throughout the rest of this century.

X. LAW ENFORCEMENT, ERADICATION AND ALTERNATIVE DEVELOPMENT

A. Law Enforcement and Eradication:

The turning point in the GOB's measures to deal with the coca problem came in August 1988 with the passage of the Coca and Controlled Substances Law which set up annual eradication targets for the "transitional zone" (i.e. the Chapare) where most or all of the coca leaf produced for illegal processing and export is grown. A substantial increase in the monthly rate of coca eradication occurred beginning in October of 1989 and continuing through 1990. The average monthly rate of

coca eradication (gross) increased from some 200 hectares in 1989 to nearly 600 during CY-1990. This sharp increase in the rate of eradication, much of it voluntary, is believed to be due, in large part, to the sharp drop in coca leaf prices which began in September of 1989, and persisted, intermittently, through 1991. Coca leaf prices have continued to fluctuate widely but are now fluctuating around a much lower norm. The range of coca leaf prices dropped from a range of $50 to $105 (for a hundred pound "load") between 1986 and August 1989 to a range of $10 to $55 since September, 1989 (See Table 16 with graph).

The sharp drop in coca prices began with the Colombian crackdown against its narcotraffickers following the assassination of Presidential Candidate Senator Galan. However, the persistence of the coca leaf price decline in both Peru and Bolivia leads us to suspect that this drop in price is due to more fundamental factors. Specifically, it is believed that a significant increase in coca plantings occurred over 1985-89 throughout the Andean region in response to the unusually high prices (and high profit rates) that prevailed in that industry throughout this period. This high profit rate attracted farmers from other regions and activities and led to a significant increase in supply, which produced an eventual decline in prices. Credit must also be given to the stepped-up efforts (and increased success) of the joint GOB/USG law enforcement program, which contributed to diminishing the profitability of coca growing by depressing prices (through interfering with market access) and raising costs (through confiscations and lab destruction). The average price of coca leaf dropped sharply in December, 1991, and January, 1992, to begin the new year some 15% under average cost of production.

The total number of hectares eradicated between January 1, 1991 and January 31, 1992, amounted to about 6,000 ha (see Table 17). While eradication performance was below target, the GOB made a determined effort to reach the 7,000 ha eradication target set for CY 1991 through strict enforcement of Law 1008 (see discussion below). The 3,500 ha eradication target for disbursement of the second tranche of the FY-1991 ESF agreement was reached in August, 1991. Nevertheless, very high new plantings in 1988 and 1989 resulted in higher harvests in 1991 than in prior years and will result in a bumper crop of coca leaves in 1992 even if the targeted eradication of 7,000 ha is achieved on schedule.

According to the NAS's November 19, 1991 Situation Report (for the period ending September 26, 1991), FY 1991 was a successful year for effective law enforcement activities. Seizures included 47 aircraft, 1,359 paste labs, 69 base labs, 23 HCL labs, 163 kilos of cocaine HCL, 2,888 kilos of cocaine base, 12,484 kilos of coca paste and 92,610 pounds of coca leaf. In addition, substantial amounts of precursor chemicals and fuel were seized, and 1,138 persons were arrested for processing and narcotrafficking.

The NAS reports also note UMOPAR's (the special Bolivian police force charged with enforcement of Law 1008) success in establishing and maintaining a presence in the Northwestern Chapare (the former "Red Zone" where traffickers had previously established complete control). UMOPAR succeeded in significantly disrupting patterns of coca paste production, purchase and shipment in that region. UMOPAR was also highly successful in executing Operation "Safe Haven", which culminated in the special task force taking control of the city of Santa Ana de Yacuma, which previously was under the complete control of the narcotraffickers.

Other encouraging developments include the replacement by the GOB of several allegedly corrupt key officials in March with persons who appear highly motivated and receptive to USG counternarcotics efforts; and the execution of a new letter of agreement with the newly appointed Attorney General to improve the effectiveness of prosecutions of violators of the Controlled Substances Law. An agreement was negotiated with the GOB Customs Agency to improve control over the importation of precursor chemicals by identifying and confiscating illegal chemicals and prosecuting illegal importers.

Finally, at the end of July, 1991, the GOB promulgated the "Repentance Decree", scheduled to run for 120 days. Under this decree, Bolivian narcotraffickers were encouraged to give themselves up to GOB authorities in exchange for a fair trial and an agreement not to be extradited to the U.S. Seven of the most wanted narcotraffickers participated in this program and are currently being prosecuted. Following expiration of the 120 day surrender period, interdiction activities intensified, resulting in the capture of two of the remaining most wanted narcotraffickers.

Late in CY 91, as it became clear that the GOB would not meet the 7000 ha eradication goal by the target date of December 31, 1991, we began discussions with the responsible GOB officials. These discussions resulted in a proposal from the government to extend the eradication period through January 31, 1991, and a commitment to eradicate 6000 ha by January 31, 1992, which was the maximum amount they thought feasible. They also proposed that a pro rated disbursement be authorized based on this amount, which would result in a final disbursement from the remaining $22 million of $15.8 million. (The GOB eradicated 6010 ha as of January 31, 1992). The eradication target for the FY 1992 Program is proposed at 7,000 ha over a one year period, counting from February 1, 1991.

After discussions with the Country Team, the Ambassador agreed to consult with AID/W and State on this proposal. However, he advised the Bolivians that consultations with Congress would be required to reach a final decision. Subsequently, this proposal was forwarded to Washington. As of the end of February, 1992, the US Mission had not yet received Washington authorization for disbursement of any amount of the third tranche of the FY 1991 ESF Program.

B. Alternative Development

The Mission projects total 1992 gross export proceeds from coca/cocaine exports to be on the order of $281 million, with earnings remaining in Bolivia (i.e. excluding earnings invested abroad which do not necessarily benefit the country) of about $101 million. These retained export earnings are equivalent to 13% of projected legitimate exports. We estimate that the combined cost of compensating Bolivia for lost coca/cocaine export earnings and the investment required to replace these earnings by developing alternative crops or other activities will amount to roughly $650 million over the next five years, that is, $130 million per year (the GOB estimate is considerably higher).

The main purpose of AID's alternative development strategy is to replace the income, foreign exchange earnings and employment opportunities that will be lost as a result of the gradual elimination of coca in the Bolivian economy. The Mission's principal activity in this area in CY-1991 was the development of the Cochabamba Regional Development Project (CORDEP), which represents a continuation of the Chapare Regional Development Project started in 1983. While this project is key to the USG/GOB counter-narcotics effort, it contains elements supportive of the other two major US goals as well, i.e. stimulating economic growth and strengthening democratic institutions.

The CORDEP project calls for the expenditure of $120 million over a five-year period, including $80 million in appropriated resources and $40 million in local currency counterpart funds, to develop alternative sources of income and employment in the Department of Cochabamba and its areas of influence. The success of the project depends on the continuing vigorous implementation of the USG/GOB law enforcement program, which is designed to impede narcotrafficking and to depress the price of coca leaf and paste by disrupting coca marketing activities.

The CORDEP project does not represent the only project in the Mission's Alternative Development strategy. Major Mission projects that are also expected to promote alternative development by creating alternative sources of income, foreign exchange and employment include export and investment promotion, balance of payments assistance, micro-enterprise development, rural road construction and rural electrification development.

Significant progress has been made in the area of crop substitution since 1988. Available data on crop substitution are as follow:

Crop Substitution in the Chapare
(in hectares)

1985	164
1986	512
1987	630
1988	1,064
1989	2,389 a/
1990	2,612 b/
1991	2,950 c/
TOTAL	9,950

a/ Source: 888.65 hectares under IBTA, and an estimated 1,500 hectares under the PL-480 Credit Program and from farmers' own resources.

b/ Source: 700 hectares under IBTA, and an estimated 1,912 hectares under the PL-480 Credit Program and from farmers' own resources.

c/ Source: USAID estimate.

Note that 86% of all acreage planted to alternative crops in the Chapare over 1985-91 occurred during the 1988-91 period. Documents relating to the GOB's alternative development program, presented by the Government to the Consultative Group (CG) meetings in Paris in both November 1990 and November 1991, constitute a clear GOB commitment to implement a sound strategy for coca eradication and substitution. Broad agreement has been reached between the GOB, the US Government and other donors with regard to the general objectives of an alternative development strategy and the main elements that such a strategy should encompass. Successful implementation of the strategy will necessarily continue to rely heavily on foreign donor assistance. Both the declarations of the donors at the recent CG meeting and the size of the amounts pledged (totalling $800 million for CY-1992) reflect increased donor interest in, and commitment to, Bolivia's alternative development program. In 1991, some 17,200 farmers benefited from USAID's Alternative Development Programs in the Chapare, significantly above target of 11,676 beneficiaries.

XI. OTHER DONOR PROGRAMS

Recent and current contributions to Bolivia's balance of payments support by other major donors are as follows:

The IMF: Resources made available to Bolivia by the IMF in recent years include a one-year Stand-By for SDR 50 million approved in

June, 1986; a three-year Structural Adjustment Arrangement for SDR 42.6 million approved in November, 1986; and an SDR 64.1 million loan from the Compensatory Financing Facility that was fully disbursed in November, 1986. Most importantly, the IMF Board authorized an Enhanced Structural Adjustment Facility (ESAF) in the amount of SDR 136.05 million in July, 1988. In May 1991, the Bolivian authorities requested the third and last annual arrangement under the ESAF in an amount equivalent to SDR 45.35 million. As of November 1991, Bolivia had received two of the three disbursements under the ESAF - for a total amount of SDR 90.7 million - and half of the last tranche - or about SDR 22.7 million. The remaining SDR 22.7 million is expected to be disbursed before the ESAF program ends in June, 1992. Additionally, the IMF approved a purchase of SDR 45.3 million under the Compensatory Financing Facility.

Bolivia was the first country in the world to have access to an ESAF, and apparently, will also be one of the first countries in the world to complete it successfully. In fact, Bolivia is seeking a one-year extension of the ESAF in an amount similar and equivalent to the previous tranches - SDR 45.35 million. This request may be considered in early 1992. Approval is not certain: Malawi is the only country where a similar extension request has been approved.

Bolivian authorities believe an extension is justified by the following considerations: First, the economy will be negatively affected by the reduction in natural gas exports to Argentina as a result of the expected 62% to 69% decline in the new negotiated price for the export. Second, the recently negotiated debt relief program with the Paris Club requires an IMF program to be effective. Third, an agreement with the IMF provides additional credibility and confidence in the economy on the part of domestic and foreign creditors and investors, which is crucial at this stage to the recovery process.

The World Bank: The World Bank expects to disburse some $65 million under the following programs: (1) the second Reconstruction Import Credit (RIC II), (2) the Financial Sector Adjustment Credit, 3) the Mining Sector Rehabilitation Program, (4) the La Paz Municipality Development, and (5) the Structural Adjustment Credit (SAC).

Under the first program, credits can be used to import equipment, spare parts and intermediate goods, for both the private and public sectors, though by far the major part is being used by the public sector. The public enterprises that use most of these import credits include COMIBOL, the YPFB, ENDE and ENFE. Under the financial sector adjustment credit, the foreign exchange is to be used to finance general

imports while the local currency generated will be used primarily to refinance the private sector's debt to the banking system. Credit under the mining sector rehabilitation program will be mainly used to support the administrative reform of COMIBOL and the development of joint-ventures with private capital. Funds under the La Paz municipality development program will be used to strengthen the administrative operations of the La Paz municipality and to help finance basic infrastructure works. $20 million was disbursed in January, 1992, from the SAC, mainly to support the reform and privatization of public enterprises. However, it is understood that the Bank has suspended disbursement of the $35 million Mining Sector Rehabilitation credit due to delays in implementation of required policies.

The Corporación Andina de Fomento (CAF): The Central Bank expects to receive about $30 million mainly for 1) export credit and 2) to finance exploitation of new key petroleum and natural gas wells.

The CAF has provided $20 million in a rotating fund to finance the pre and post embarkation credit requirements of exports of non-traditional products. In addition, the CAF will provide funds for the exploitation of the new San Alberto drilling, which will become one of the YPFB's most important operations.

The IDB: Traditionally, the IDB has had the largest economic assistance program in Bolivia, but did not contribute with any direct balance of payments support. However, in January, 1992, the IDB disbursed $30 million of its new Structural Adjustment Credit (SAC) to support the reforms of the financial sector and public enterprises, and to provide resources for investment purposes. In addition, several of its large-scale projects (e.g. $55 million for road paving of the main road network, $25 million for the Bolivar mine in Oruro, and $200 million for agricultural credit through the Central Bank), will have a significant long-term impact on exports. Total disbursements for 1992 are expected to be about $140 million.

The Japanese Government provided the equivalent of $50 million in co-financing for the World Bank's RIC II, thus supplementing that project's funding for the importation of equipment and spare parts, particularly for the public sector. Japan also has been co-financing the Financial Sector Adjustment Credit with the IBRD with a contribution of $65 million. Foreign exchange resources for this project were used to finance general imports while local currency generations refinanced private sector debts to the banking system. Funds for this recent project have been fully disbursed. Expected disbursements in 1992 are projected at only $10 million.

Germany: The West German government provides no balance of payments assistance as such, though its economic assistance program to Bolivia is important. During 1991, the German government is expected to disburse some $16 million. However, the whole amount is for specific projects or programs, some tied to the procurement of German goods.

Note: Of the amounts described above, all amounts were included "above the line" in the $280 million official loan disbursement figure in the balance of payments projection for CY 1992 (Table 14), and should not be treated as additional to the resource availabilities projected in that table.

XII. PROCEDURES FOR UTILIZATION AND TRACKING OF U.S. DOLLARS AND LOCAL CURRENCY

A. Establishment of Separate Accounts

Prior to the first AID disbursement of the U.S. dollar cash transfer, the Central Bank of Bolivia will have established a U.S. Dollar Separate Account in a U.S. bank of its choice in the United States for the purpose of receiving disbursements under the FY 1992 ESF Program. This account will be used only for the agreed to purposes of the Program, and funds deposited in this account will not be comingled with any other funds of any kind. The account will be interest bearing, and interest payments received will be used for the same purposes agreed to for use of the cash transfer amounts deposited by AID.

Prior to the first AID disbursement of the U.S. dollar cash transfer, the Government of Bolivia will have established a Local Currency Separate Account in the Central Bank of Bolivia into which the local currency deposits equivalent to the U.S. dollar disbursements deposited by AID into the U.S. Dollar Separate Account in a U.S. bank will be made. Once AID has confirmed compliance with all conditions precedent corresponding to each disbursement, AID will make the deposits agreed to under the program into the U.S. Dollar Separate Account.

Upon confirmation from the U.S. bank of each AID deposit into the U.S. Dollar Separate Account, the Central Bank will deposit into the Local Currency Separate Account an equivalent amount of local currency, calculated at the highest exchange rate that was not illegal on the date of the AID U.S. dollar deposit into the U.S. Dollar Separate Account. Each deposit of local currencies into the Local Currency Separate Account will be made within three business days of each AID U.S. dollar deposit into the U.S. Dollar Separate Account.

B. Use of the Dollars

Preliminary discussions with the Government of Bolivia and the Central Bank indicate a strong preference for using the ESF dollars to contribute to Bolivia's on-going efforts to reduce external debt, which continues to be one of the government's highest priorities. Moreover, Mission discussions with multilateral institutions such as the Inter-American Development Bank indicate that reduced relative exposure in Bolivia could result in increased resource levels from these sources over the near to medium term, since the amount of financing to be made available includes analyses of current and expected future exposure, over-all and relative to other donors.

Nevertheless, the GOB understands the AID policy preference favoring using the dollars to finance productive imports from the U.S. However, Mission calculations of likely private sector needs for productive imports from the U.S. over a twelve-month period do not exceed $60-65 million, and could in fact be significantly less. The Mission accordingly proposes that a goal of up to two thirds ($44 million) of total FY 1992 ESF resources be attributed to private sector productive imports from the U.S., with the requirement that not less than 50 percent ($11 million) of any particular tranche be designated for this purpose. The remaining amounts of each disbursement would be made available for debt service or debt reduction corresponding to obligations with the U.S. Government and multilateral institutions such as the IDB, the IBRD, the IMF and the CAF.

U.S. dollar financing of private sector productive imports will adhere to the following mechanism:

1) Within three months of each AID disbursement into the U.S. Dollar Separate Account, the Central Bank, by means of public auctions, will have offered a corresponding amount of U.S. dollars from its own foreign exchange reserves, with the dollars being placed at the market clearing rate determined by each auction. Since the Central Bank does not now specify the use of any foreign exchange it makes available to the private sector, and since it is not AID policy to involve governments and Central Banks in the allocation of foreign exchange which would distort evolving capital markets in developing countries, the expected use of auctioned dollars will not be specified.

2) Since the Central Bank has access to ex-post import documentation, the Central Bank will maintain a file of documentation (bills of lading. etc.) covering private sector productive import transactions with U.S. suppliers that occur after equivalent amounts of U.S dollars have been auctioned to the private sector that confirms:

- the productive use (raw materials and capital goods) of the imports;
- the identities of the U.S. suppliers for each transaction;
- the identities of the Bolivian importers for each transaction;
- that the imports actually entered Bolivia; and
- that the supplier has been paid.

3) The Central Bank will periodically request USAID authorization for reimbursement from the U.S. Dollar Separate Account for U.S. dollars it has made available to the private sector under the program. Each request for reimbursement will be accompanied by lists of eligible import transactions that have been completed that equal or

exceed in value the amount of reimbursement requested. The Central Bank auctions increase the availability of foreign exchange to private sector importers; accordingly, approvals for reimbursement will be subject only to verification that identifiable private sector importers have imported productive commodities from identifiable U.S. sources in amounts equal to or greater than amounts specified in the Agreement and auctioned to the private sector, whether or not auction resources can be shown to have been used to finance specified transactions.

4) USAID or a designated agent will review the lists of transactions submitted by the Central Bank, including, at its option, a review of corresponding support documentation on file at the Central Bank, and based on a preliminary determination that the Bank in fact provided equivalent foreign exchange to the private sector and that equivalent eligible imports transactions have been completed, will authorize release of the dollar funds from the U.S Dollar Separate Account as reimbursement to the Central Bank.

With respect to use of the dollars to service or reduce external debt, the GOB will prepare and submit to USAID a schedule of eligible obligations to be paid using U.S. dollars made available for such use under the Agreement. USAID will review the list and approve eligible payments in accordance with the availability of U.S. dollars for this purpose from each AID disbursement into the U.S. Dollar Separate Account. The Central Bank of Bolivia will make the approved payments directly from the U.S. Dollar Separate Account.

In the event that subsequent audits identify any non-eligible uses of dollars from the U.S. Dollar Separate Account, whether or not previously authorized, the Central Bank will redeposit the amount of such ineligible uses plus imputed interest into the U.S. Dollar Separate Account.

C. Local Currency Use

With regard to the programming, use and control of the local currency counterpart funds owned by the GOB, the Mission has negotiated procedures for the FY 1992 program designed to avoid delays in local currency deposits. The Central Bank will immediately deposit local currencies into the Local Currency Separate Account upon confirmation of AID's U.S. dollar deposit into the U.S. Dollar Separate Account.

The local currencies deposited into the Local Currency Separate Account under this Agreement will be jointly programmed by USAID and the GOB to: (1) contribute to the USAID local currency Trust Fund Account to partially finance USAID operating and capital costs, including reserves for projected severance and retirement costs of FSNs and contribute to an 18-month reserve for the Mission's FSN salary and other operating costs; (2) provide counterpart to USAID projects; (3) provide partial financing to a limited number of priority GOB projects that are key to the success of USAID's country development strategy and

activities; (4) provide counterpart to a limited number of mutilateral donor projects that contribute to the attainment of USAID's strategic objectives ; and (5) reduce public sector domestic credit obligations with the Central Bank of Bolivia.

The Mission's preliminary estimates of how the local currencies may be programmed are as detailed in the following illustrative budget:

	Millions of Dollars	Percent Distribution
AID Requirements	24.0	36.4
USAID Trust Fund	6.0	9.1
Counterpart, AID Projects	18.0	27.3
GOB Requirements	42.0	63.6
Counterpart, Other Donor and GOB Projects	26.0	39.4
Domestic Debt Reduction	16.0	24.2
TOTAL	66.0	100.0

The programming of local currencies will be done through operational letters following signing of the Grant Agreement. Any changes in local currency programming will also be agreed to through operational letters. Programming of local currencies for GOB requirements, including counterpart for other donor projects, will generally be limited to kinds of activities and GOB agencies with which the Mission has had satisfactory prior experience in terms of project accountability that will not increase USAID's administrative and over-sight burden.

No later than five (5) business days after the first and second tranche disbursements by AID into the U.S. Dollar Separate Account, the Government of Bolivia will fund the USAID Trust Account by disbursing to USAID local currencies from the Local Currency Separate Account equivalent to $3.0 million dollars each tranche, for a total of $6.0 million, calculated at the same exchange rates used to determine the amounts deposited by the Central Bank in the Local Currency Separate Account following AID deposits into the U.S. Dollar Separate Account.

D. Payment Verification and AID's Management of the Program

The Balance of Payments Program has grown substantially since the first $7 million were obligated in 1986. Agency guidance regarding management and monitoring has also tightened. The Mission continues to strengthen the monitoring over these resources both in the Mission and in the GOB. The USAID/B Controller's Office has two financial analysts and

an Assistant Controller with primary responsibility for local currency. The Project Development and Implementation Office now has one foreign national devoting more than 80% of his time to this program.

Since 1988 the Mission has worked closely with the Ministry of Planning (MOP) in establishing a separate unit in the MOP devoted exclusively to monitoring and accounting for both the local currency and the dollars. This unit is funded with local currency from the program. This unit is called DIFEM, and is staffed by some twenty-five people with responsibilities for coordinating and monitoring all bilateral and multilateral donor activities with primary responsibility for local currency funded projects. Last year the MOP signed a contract with Price Waterhouse for an overall reorganization of the Ministry in general and DIFEM in particular. The reorganization includes additional staff (as local currency programs now exceed $100 million) and an internal audit staff to review actual uses of local currencies by the designated implementing agencies. In addition, DIFEM has a contract with a local CPA firm that performs concurrent audits of local currency programming and expenditures.

E. Reporting and Accounting Arrangements

DIFEM has installed an accounting and reporting system similar to the system installed in the PL-480 Executive Secretariat. This system will be further refined during the current reorganization. DIFEM provides the Mission with quarterly reports on the deposit and use of the local currency and this information is incorporated into the Mission's quarterly project financial report which is sent to AID/W.

The principal local currency uses are: OE Trust Fund, counterpart for AID projects, and counterpart for multi-lateral donor and priority GOB projects. The Mission fulfills its monitoring responsibilities for the first two uses in the same manner as with dollar OE and project funds. Every Mission project now has a budget for audits and the DIFEM local currencies are included as part of the Mission's periodic audit process.

With regard to the local currencies programmed for use as counterpart for multi-lateral projects and GOB priority projects, the Mission and DIFEM implement the following:

1. DIFEM executes a project agreement with each implementing institution. These agreements incoporate most of the standard clauses in AID HB 3 agreements;

2. DIFEM's internal audit group makes field trips to each project. So far the audit staff has reviewed about 60% of total disbursements, and this will increase to about 80% once the reorganization is completed;

3. The DIFEM staff reviews expenditures for GOB priority projects in more detail than for multilateral programs, and carries out more frequent field visits;

4. External audit coverage of all AID and GOB projects are strongly encouraged; this greatly enhances the Mission's level of confidence regarding the expenditure of funds; and

5. The Mission Controller's financial analysis staff together with the internal audit staff is planning more extensive field reviews of expenditures and accountability systems.

We believe that the above actions being taken by the GOB and USAID/B, provide accountability standards as required in the latest Agency and LAC Bureau policy guidance. The Central Bank's internal control procedures have been determined to be adequate for tracking deposits and disbursements from the U.S. Dollar Separate Account.

XIII. PROPOSED CONDITIONALITY

As in prior year PAADs, the focus of the conditions precedent (CPs) outlined here relate to compliance with coca eradication targets and other narcotics related matters. Strict macroeconomic performance targets were set periodically by the IMF as part of its ongoing SDR 136 million Enhanced Structural Adjustment Facility (ESAF) program, negotiated in mid-1988 which has been carried out successfully. GOB and IMF officials may negotiate an extension of the ESAF for a fourth year in the spring of 1992. Critical to maintenance of economic stabilization and balanced recovery is continued adherence to the macroeconomic framework that the GOB has consistently implemented in recent years. CPs for the second and third tranches of this program will include continued adherence to a market-based exchange rate system as the main indicator of adherence to the over-all macroeconomic framework needed to stimulate the increased trade and investment necessary for sustaining economic recovery and the GOB's alternative development strategy. In addition, we have identified, and incorporated in our CP and Covenant Sections, a number of sectoral issues involving restructuring and adjustment measures designed to promote economic growth and improve the quality of life, support continued public sector reform, and support continued implementation of important counternarcotics measures.

The Mission proposes that the $66 million to be obligated in FY-92 will be disbursed in three equal tranches with the disbursement of the first tranche to occur following completion of eradication of 2,500 ha. of the 7,000 hectare target (counting from February 1, 1992) under the FY-92 BOP assistance program. The funding will be provided under two obligations of $33 million each, the second to be made only after the certification requirements of the FAA have been met. The minimum number of hectares to be eradicated during the twelve month-period from February 1, 1992 to January 31, 1993, covered by this PAAD, is 7,000.

As with the FY 1990 and FY 1991 PAADs, the Mission proposes several narcotics conditions and eradication targets for all three disbursements. We will be looking for substantial progress on eradication and law enforcement (as well as with the CPs dealing with other issues) prior to authorizing each disbursement. The determination of substantial compliance prior to each disbursement will be made by the Ambassador in consultation with the Mission Country Team. Consultation with AID/W and the Department will also be carried out prior to disbursement.

Draft CPs and covenants are described below. These represent the consensus of all USG agencies at post as to appropriate conditionality. In some cases, we may have to negotiate tough conditionality. We recognize, however, that final wording is subject to modification as a result of AID/W review and subsequent formal negotiation with the GOB.

A. Conditions Precedent

1. First tranche: $22.0 Million
(Target date: May 31, 1992)

Prior to the disbursement of the first tranche, the GOB will comply with the standard conditions precedent (legal opinion and designation of authorized representatives, establishment of separate dollar and boliviano accounts and description of procedures indicating how the dollars and bolivianos will be deposited and disbursed). In addition, the GOB will have substantially complied with the following:

. Amendment of the USAID Trust Account Agreement dated June 6, 1986, as amended, or signature of a new USAID Trust Account Agreement providing that the equivalent in bolivianos of $6.0 million will be made available by the GOB to the USAID Trust Account according to an agreed to deposit schedule to finance USAID's operating and capital costs, including LC salary, severance, and retirement costs, construction and equipping of a new office building, and reconditioning the current offices after they are vacated.

. The GOB will continue to conduct a vigorous campaign for the enforcement of laws prohibiting the production of, or trafficking in, refined cocaine products, as evidenced by substantial seizures or destruction of refined cocaine products or chemicals used in their production, destruction of physical facilities, and seizure or destruction of assets such as airplanes or vehicles which are used in the production of cocaine, and by the arrest, incarceration or extradition of large-scale cocaine traffickers.

. The GOB shall expeditiously and vigorously implement their program for involuntary eradication of coca grown in areas or under circumstances which are illegal under Law 1008 and its implementing regulations. This shall include actual eradication by GOB officials of significant amounts of coca seedbeds, coca planted since the effective date of the law, and coca grown outside the traditional or transitional zones.

. Eradication of 2,500 ha. of coca counting from February 1, 1992.

2. **Second tranche: $22.0 Million**
(Target date: September 30, 1992)

Prior to the second disbursement, the GOB will have substantially complied in form and substance satisfactory to the USG, with the following conditions:

. Eradication of a total of 5,000 hectares of coca, counting from February 1, 1992.

. Continuation of a vigorous campaign for enforcement of laws prohibiting the production of, or trafficking in, refined cocaine products, whose measure of effectiveness is described above; in addition, to accomplish the seizure by the Bolivian National Police of significant physical or financial assets derived from the proceeds of the production or trafficking in cocaine.

. Continuation of expeditious and vigorous implementation of the GOB program for involuntary eradication of coca grown in areas or under circumstances which are illegal under Law 1008 and its implementing regulations. This shall include actual eradication by GOB officials of significant amounts of coca seedbeds, coca planted since the effective date of the law, and coca grown outside the traditional or transitional zones.

. Continued adherence to a market based exchange rate regime.

3. **Third tranche: $22.0 Million**
(Target date: January 31, 1993)

Prior to the third disbursement, the GOB will have substantially complied in form and substance satisfactory to the USG, with the following conditions:

. eradication of a cumulative total of 7,000 hectares of coca cultivation, counted from February 1, 1992;

. continuation of a vigorous law enforcement campaign, whose measures of effectiveness are described in the third paragraph under the CPs for the first tranche, above;

. continuation of expeditious and vigorous implementation of the GOB program for involuntary eradication of coca grown in areas or under circumstances which are illegal under Law 1008 and its implementing regulations. This shall include actual eradication by GOB officials of significant amounts of coca seedbeds, coca planted since the effective date of the law, and coca grown outside the traditional or transitional zones;

. continued adherence to a market based exchange rate regime.

B. **Covenants:**

1. Public sector reform, to include the following:

. The GOB will continue to seek passage by the Bolivian Congress of a law authorizing the privatization of a substantial number of state owned enterprises.

. The GOB will avoid increases in overall public sector employment above current levels.

. Support Bolivian Congressional approval of the revised tax code designed to establish a suitable structure of penalties for tax fraud and delinquency.

. Following passage by the Bolivian Congress of a comprehensive Environmental Law designed to protect and conserve the country's natural resources, the GOB will initiate the process of drafting the necessary implementing regulations.

2. In the area of alternative development:

. Give priority to the development of projects promoting alternative development in the formulation of the GOB public investment program;

. Make allowance in the GOB budget for the maintenance of roads that USAID and other donors currently finance in the Chapare and elsewhere to promote alternative development;

. Drop the injunction against the importation and distribution of ground limestone to the Chapare, where it is needed to neutralize the acidity of the soil.

3. In the area of counternarcotics:

. The GOB will arrest and vigorously pursue the prosecution of persons charged with narcotrafficking, either in Bolivia or in the U.S., on the basis of substantial evidence and will respond expeditiously to any requests of the USG for extradition of any such persons.

. The GOB will vigorously investigate and prosecute all cases involved in terrorist acts, including those committed against U.S. and other foreign nationals or enterprises.

. The GOB will effectively and vigorously enforce all terms and conditions of the "Voluntary Surrender Decree" (Decree No. 22881 of July 29, 1991). The GOB will also assure strict enforcement of minimum sentencing for such crimes in accord with provisions of the decree.

Table 1

GENERAL CONSUMER PRICE INDEX (1980 = 100)		
	Index Average of Period	*Average Annual Rate of Increase*
1981	132.1	
1982	295.4	123.6%
1983	1,109.3	275.5%
1984	15,323.9	1281.4%
1985	1,815,829.9	11749.7%
1986	6,833,621.0	276.3%
1987	7,829,874.0	14.6%
1988	9,082,817.5	16.0%
1989	10,460,996.0	15.2%
1990	12,251,790.0	17.1%
1991	14,878,573.8	21.4%

Source: Instituto Nacional de Estadisticas.

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Table 2

OFFICIAL AND PARALLEL EXCHANGE RATES ($b./US$)				
End of:	*Official*	*Annual Rate of Increase*	*Parallel*	*Annual Rate of Increase*
1981	25.0		25.0	
1982	68.4	173.7%	178.4	613.8%
1983	251.7	267.9%	695.4	289.7%
1984	2,852.6	1033.3%	8,202.5	1079.5%
1985	1,589,567.0	55624.4%	1,724,200.0	20920.4%
1986	1,923,742.0	21.0%	1,952,900.0	13.3%
1987 *	2,185,800.0	13.6%	2,226,800.0	14.0%
1988	2,450,300.0	12.1%	2,473,900.0	11.1%
1989	2,951,600.0	20.5%	2,975,800.0	20.3%
1990	3,374,800.0	14.3%	3,391,600.0	14.0%
1991	3,750,000.0	11.1%	3,770,000.0	11.2%

* While we continue to cite the rate in Bolivian pesos, a new unit (the Boliviano) was created in January 1987: One (new) Boliviano = 1,000,000 Bolivian pesos.

Source: Banco Central de Bolivia.

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Table 3

TOTAL LIQUIDITY AND ITS COMPONENTS

	1981	1983	1985	1986	1987	1988	1989	1990	1991 (pr)
In nominal terms (In mill. of $b)									
M1	17,153	175,125	198,679,345	363,303,593	506,437,000	684,769,000	706,302,000	988,376,000	1,326,100,000
Currency	10,852	124,757	173,819,231	254,372,547	397,498,000	526,082,000	500,229,000	638,839,000	745,400,000
Demand Deposits	6,301	50,368	24,859,114	68,931,046	110,939,000	158,687,000	206,004,000	349,536,000	580,700,000
Rate of Growth M1 (over prior year)		209.7%	5928.7%	82.9%	39.9%	34.7%	2.1%	39.9%	34.2%
Quasi-Money	14,433	92,283	94,390,948	463,496,041	670,938,050	1,006,209,130	1,548,173,614	2,356,704,646	3,850,900,000
Local Currency	9,193	90,061	57,299,821	168,793,000	132,908,000	137,605,000	118,573,000	146,330,000	180,000,000
Foreign Exchange(1)	5,240	2,222	37,091,127	294,703,041	538,030,050	868,604,130	1,429,600,614	2,210,374,646	3,670,900,000
M2=Total Liquidity	31,586	267,408	293,069,293	826,799,734	1,179,375,050	1,690,978,130	2,254,475,614	3,345,080,646	5,177,000,000
Rate of Growth M2 (over prior year)		169.7%	7220.0%	182.1%	42.6%	43.4%	33.3%	48.4%	54.8%
In real terms (In $b)(2)									
M1	18,581,550	10,683,291	6,435,278	7,090,456	8,966,827	9,939,313	8,795,037	10,429,296	12,218,777
Currency	11,755,785	7,610,552	5,630,081	5,745,155	7,010,299	7,635,997	6,229,831	6,740,958	6,868,167
Demand Deposits	6,825,765	3,072,640	805,198	1,345,300	1,956,527	2,303,217	2,565,206	3,688,308	5,350,610
Rate of Growth M1		-27.7%	-27.1%	10.2%	26.5%	10.9%	-11.5%	18.5%	17.2%
Quasi-money	15,635,302	5,529,588	3,057,364	9,045,870	11,832,705	14,604,966	19,278,190	24,867,833	35,482,457
Local Currency	9,958,619	5,494,064	1,855,966	3,294,267	2,343,974	1,997,316	1,476,496	1,544,067	1,658,532
Foreign Exchange(1)	5,676,683	135,524	1,201,398	5,751,604	9,488,731	12,607,651	17,801,694	23,323,766	33,823,925
M2=Total Liquidity	34,216,851	16,312,879	9,492,642	16,136,326	20,799,532	24,544,279	28,073,227	35,297,129	47,701,234
Rate of Growth M2		-37.1%	-11.5%	70.0%	28.9%	18.0%	14.4%	25.7%	35.1%

(pr) Preliminary

(1) Adjusted official data by dividing through the official exchange rate and multiplying it by the parallel exchange rate of the corresponding year or month.

(2) Deflated by the CPI for the month of December (September for 1991).

Source: Banco Central de Bolivia.

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Table 4

PUBLIC AND PRIVATE CREDIT OF THE FINANCIAL SYSTEM
(Balance Outstanding)
(in Bolivianos)

	CREDIT TO THE PUBLIC SECTOR (1)	*RATE OF GROWTH*	*CREDIT TO THE PRIVATE SECTOR*	*RATE OF GROWTH*	*TOTAL CREDIT*	*RATE OF GROWTH*
1981	43,297		23,358		66,655	
1982	241,541	457.9%	91,192	290.4%	332,733	399.2%
1983	725,583	200.4%	191,788	110.3%	917,371	175.7%
1984	13,115,122	1707.5%	2,624,024	1268.2%	15,739,146	1615.7%
1985	2,443,624,611	18532.1%	409,713,000	15513.9%	2,853,337,611	18028.9%
1986	2,713,861,000	11.1%	947,523,000	131.3%	3,661,384,000	28.3%
1987	3,020,365,000	11.3%	1,375,825,000	45.2%	4,396,190,000	20.1%
1988	3,532,493,000	17.0%	1,851,931,000	34.6%	5,384,424,000	22.5%
1989	4,221,146,000	19.5%	2,629,261,000	42.0%	6,850,407,000	27.2%
1990	5,403,989,000	28.0%	3,710,194,000	41.1%	9,114,183,000	33.0%
Sep. 1990	4,973,305,000		3,398,891,000		8,372,196,000	
Sep. 1991	6,034,375,000	21.3%	4,640,824,000	36.5%	10,675,199,000	27.5%

(pr) Preliminary

(1) On a gross basis – i.e. without deducting government deposits whose value was distorted by the devaluation.

Source: Banco Central de Bolivia.

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Table 5

SUMMARY INDICATORS OF THE SITUATION OF THE CENTRAL BANK OF BOLIVIA
(In Mill. of Bs)

	Dec.89	Dec.90	% Change Dec89/Dec90	Mar.91	Jun.91	Sep.91	Dec.91	% Change Dec90/Dec91
NET INTERNATIONAL RESERVES	55.3	448.5	711%	698.4	825.5	1,021.0	749.9	67%
NET DOMESTIC ASSETS	475.1	219.7	-54%	(108.3)	(170.3)	(361.3)	25.6	-88%
- Non Financial Public Sector	376.8	477.2	27%	431.2	401.5	241.9	710.1	49%
- Financial Sector	583.5	570.0	-2%	504.7	483.2	409.8	494.2	-26%
- Private Commercial Banks	258.5	170.1	-34%	0.2	(23.6) (1)	(132.9) (1)	(47.5) (1)	-
- All State Banks	313.8	386.7	23%	406.3	405.0	405.4	(47.2)	-112%
- Other Financial Institutions	110.8	113.2	2%	97.5	101.7	137.3	589.0	420%
- Medium and Long-Term Obligations	(1,690.7)	(2,222.3)	31%	(2,370.1)	(2,365.0)	(2,471.5)	(2,653.0)	19%
- Other Accounts	1,105.5	1,294.8	17%	1,325.4	1,309.9	1,460.9	1,474.2	14%
MONEY SUPPLY	530.4	668.2	26%	589.5	655.3	659.1	775.5	16%

(1) A negative amount means that the deposits of commercial banks with the Central Bank exceed Central Bank gross credit (with donor and Central Bank resources) extended to the commercial banks.

SOURCE: Central Bank of Bolivia

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Table 6

DOLLAR VALUE OF DEPOSITS IN THE BANKING SYSTEM (1)												
	1980	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
TOTAL DEPOSITS	556.14	453.87	210.70	113.61	45.48	67.90	268.58	343.81	472.03	585.34	799.96	1.183.07
Demand Deposits (Local Curr.& with Maint.of Value)	194.90	152.75	62.39	40.49	17.32	14.49	35.08	49.09	54.75	69.13	103.57	163.61
Time Deposits	361.24	301.12	148.31	73.12	28.16	53.41	233.50	294.72	407.27	516.21	696.38	1.019.46
-Local Currency	245.25	221.60	143.24	72.40	27.73	33.39	85.90	58.81	56.16	39.79	43.35	52.06
-Foreign Exchange	115.99	79.52	5.07	0.72	0.43	20.01	147.60	235.91	351.11	476.42	653.02	967.40
Rate of Growth of Local Currency Demand and Time Deposits	63.0%	-14.9%	-45.1%	-45.1%	-60.1%	6.3%	152.7%	-10.8%	12.1%	-9.3%	34.9%	46.8%
Rate of Growth of Foreign Exchange Deposits	-2.0%	-31.4%	-93.6%	-85.8%	-40.9%	4608.5%	637.5%	59.8%	48.8%	35.7%	37.1%	48.1%
Rate of Growth of Total Deposits (over prior year)	43.3%	-18.4%	-53.6%	-46.1%	-60.0%	49.3%	295.6%	28.0%	37.3%	24.0%	36.7%	47.9%

(pr) Preliminary

(1) As adjusted by the parallel exchange rate for the month of December.

Source: Banco Central de Bolivia.

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Table 7

CENTRAL BANK'S NET INTERNATIONAL RESERVES
(In Millions of US$)

	1980	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Gross International Reserves	135.5	242.8	324.6	268.9	505.3	413.5	404.4	373.3	375.7	393.0
- Foreign Exchange	84.9	150.8	243.5	167.1	265.3	162.6	230.6	228.4	269.3	247.4
- Gold	31.2	37.0	37.9	37.8	37.8	37.9	38.0	38.0	37.9	39.5
- Other Assets*	19.4	55.0	43.2	64.0	202.2	213.0	135.8	106.9	68.5	106.1
Short Term Obligations (-)	237.4	287.5	220.5	132.7	258.7	224.6	243.5	354.7	243.4	192.7
- Obligations with the IMF	81.6	89.2	63.7	51.3	166.8	166.2	199.2	250.4	257.0	244.7
- Other Short Term Obligations**	155.8	198.3	156.9	81.4	91.9	58.4	44.3	104.3	-13.6	-52.0
NET INTERNATIONAL RESERVES	-101.9	-44.7	104.0	136.2	246.5	188.9	160.9	18.6	132.3	200.3

*Includes countertrade and the development bilateral fund both with Argentina.
**Includes short term debt payments due.

Source: Banco Central de Bolivia.

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Table 8

COMPOSITION OF THE NET INTERNATIONAL RESERVES
(In Mill of US$)

	Dec. 90	Dec. 91(pr)	% of Total Net Int. Res.
Gross International Reserves	375.7	393.0	
- Foreign Exchange	269.3	247.4	
of which:			
- Certificates of Deposit in US$	76.9	74.0	36.9%
- Gold	37.9	39.5	
- Other Assets*	68.5	106.1	
of which:			
- Countertrade & Binational Fund with Argentina	57.8	96.0	47.9%
Short Term Obligations	243.4	192.7	
- Obligations with the IMF	257.0	244.7	
- Other Short Term Obligations**	-13.6	-52.0	
NET INTERNATIONAL RESERVES	132.3	200.3	84.9%

The minus figures mean "credit".
* Includes countertrade with Argentina.
**Includes short term debt payments due.

Source: Banco Central de Bolivia.

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Table 9

CONSOLIDATED NATIONAL BUDGET AS % OF GDP									
	1980	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990(pr)*	*1991(pj)*
CURRENT ACCOUNT SURPLUS (DEFICIT)	-0.9	-12.3	-4.0	1.6	1.9	0.7	1.0	2.5	3.0
Capital Revenues	0.4	0.2	0.2	1.3	0.2	0.1	1.9	1.9	2.1
Capital Expenditures	7.4	4.7	4.4	5.8	6.5	8.1	8.3	7.6	8.6
CAPITAL ACCOUNT SURPLUS (DEFICIT)	-6.9	-4.5	-4.3	-4.6	-6.3	-7.1	-6.4	-5.8	-6.5
TOTAL SURPLUS (DEFICIT)	-7.8	-26.5	-10.8	-3.0	-8.2	-6.4	-5.4	-3.3	-3.5
Financing	7.8	26.5	10.8	3.0	8.2	6.4	7.4	3.3	3.5
External (net)	5.3	2.8	4.8	7.0	2.7	4.5	2.0	2.4	3.2
Internal (net)	2.5	23.7	6.0	-4.0	5.6	1.9	5.4	0.9	0.3

(pr) preliminary
(pj) projected, based on information of the first three quarters.

SOURCE: UDAPE, based on information from the Ministry of Finance.
SUMMARIZED BY: ECON/USAID

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Table 10

CONSOLIDATED BUDGET
OF THE NON FINANCIAL PUBLIC SECTOR: 1988-1991

	1988	1989	1990	1991(pj)	1988	1989	1990	1991(pj)
	(In Mill. of Bs)				(In Mill. of Bs of 1988)			
TOTAL REVENUES	2,817.3	3,592.1	4,437.0	5,960.0	2,817.3	3,119.0	3,290.0	3,640.3
Current Revenues	2,717.5	3,355.1	4,201.7	5,582.2	2,717.5	2,913.2	3,115.5	3,409.5
Tax Revenues	753.7	896.1	1,130.5	1,622.3	753.7	778.1	838.3	990.9
- Internal Revenue	544.8	683.0	919.9	1,426.5	544.8	593.0	682.1	871.3
- Customs Revenue	208.9	213.1	210.6	195.8	208.9	185.0	156.2	119.6
Income from Hydrocarbons	1,304.6	1,501.9	1,856.7	2,471.5	1,304.6	1,304.1	1,376.7	1,509.5
- Internal Market	764.6	936.2	1,158.7	1,640.1	764.6	812.9	859.2	1,001.7
- External Market	540.0	565.7	698.0	831.4	540.0	491.2	517.6	507.8
Income from Other Enterprises	430.2	662.4	839.3	1,015.1	430.2	575.1	622.3	620.0
- Internal Market	246.7	338.4	455.1	585.4	246.7	293.8	337.5	357.6
- External Market	183.5	324.0	384.2	429.7	183.5	281.3	284.9	262.5
Other Current Revenues	229.0	294.7	375.2	473.3	229.0	255.9	278.2	289.1
Capital Revenues	99.8	237.0	235.3	377.8	99.8	205.8	174.5	230.8
TOTAL EXPENDITURES	3,489.0	4,262.4	4,907.5	6,580.7	3,489.0	3,701.0	3,638.8	4,019.4
Current Expenditures	2,638.7	3,227.7	3,677.5	5,035.1	2,638.7	2,802.6	2,726.8	3,075.3
Personal Services	1,011.2	1,330.7	1,578.3	1,934.0	1,011.2	1,155.4	1,170.3	1,181.2
Purchase of Goods and Services	738.4	991.0	1,096.8	1,508.2	738.4	860.5	813.3	921.2
Interest Due (External Debt)	439.3	450.3	469.1	682.0	439.3	391.0	347.8	416.6
Current Transfers	114.8	233.7	397.6	530.8	114.8	202.9	294.8	324.2
Other Expenditures	335.0	222.0	135.7	380.1	335.0	192.8	100.6	232.2
Capital Expenditures	850.3	1,034.7	1,230.0	1,545.6	850.3	898.4	912.0	944.0
CURRENT ACCOUNT SURPLUS (DEFICIT)	78.8	127.4	524.2	547.1	78.8	110.6	388.7	334.2
CAPITAL ACCOUNT SURPLUS (DEFICIT)	(750.5)	(797.7)	(994.7)	(1,167.8)	(750.5)	(692.6)	(737.6)	(713.3)
TOTAL SURPLUS (DEFICIT)	(671.7)	(670.3)	(470.5)	(620.7)	(671.7)	(582.0)	(348.9)	(379.1)
FINANCING	672.0	670.3	470.5	620.7	672.0	582.0	348.9	379.1
External	478.6	249.3	329.0	566.6	478.6	216.5	243.9	346.1
- Disbursements	377.2	358.9	498.9	580.5	377.2	311.6	369.9	354.6
- Amortizations	(124.1)	(153.4)	(190.8)	(210.4)	(124.1)	(133.2)	(141.5)	(128.5)
- Interests not Paid	303.0	288.8	267.7	270.2	303.0	250.8	198.5	165.0
- Arrears	(52.0)	(15.2)	(9.2)	(4.3)	(52.0)	(13.2)	(6.8)	(2.6)
- Arrears from Argentina	(25.5)	(229.8)	(59.5)	(12.8)	(25.5)	(199.5)	(44.1)	(7.8)
- Brazilian Debt Repurchased	0.0	0.0	(178.1)	(56.6)	0.0	0.0	(132.1)	(34.5)
Internal	193.4	421.0	141.5	54.1	193.4	365.5	104.9	33.0
- Central Bank	345.8	592.9	175.7	120.4	345.8	514.8	130.3	73.5
- Foreign Oil Companies	(157.6)	(233.3)	(19.0)	(52.3)	(157.6)	(202.6)	(14.1)	(31.9)
- Floating Debt	(9.0)	50.9	14.3	41.4	(9.0)	44.2	10.6	25.3
- Other	14.2	10.5	(29.5)	(55.4)	14.2	9.1	(21.9)	(33.8)

(pj) projected
SOURCE: Ministry of Finance and UDAPE.

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Table 11

GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY
(In 1980 Bolivianos)

ECONOMIC ACTIVITY	1980	1981	1982	1983	1984	1985	1986	1987(p)	1988(p)	1989(p)	1990(p)	1991(pj)
A. INDUSTRIES	106,050	106,450	103,133	98,777	98,154	97,537	96,001	98,305	102,205	105,350	108.245	113.386
1. Agriculture, Forestry & Fishing	22,563	22.354	23,900	19,788	23,553	25.372	24,478	25.337	25,951	25.604	25.097	26.911
-Agricultural Products	15,727	17,257	18.408	14,596	18,735	20,244	19,305	20.064	20,424	19.862	19,099	20,773
-Animal Products	5,893	4.216	4,850	4,815	4.412	4,600	4,603	4,694	4,978	5,178	5.411	5.546
-Forestry & Fishing	943	881	642	377	406	528	570	579	549	564	587	592
2. Mining & Quarry Production	19,407	20.139	19,526	18.112	15,902	14,211	12,166	12.351	14.806	17.048	18.340	19.308
-Crude Oil & Natural Gas	6,728	7,072	7,476	7,176	7,015	6,973	6,847	6,950	7,189	7,503	7,780	7,950
-Metallic & Non-Metallic Minerals	12.679	13,067	12,050	10,936	8,887	7,238	5.319	5.401	7.617	9.545	10.560	11,358
3. Manufacturing	17,974	16,581	14,531	14,558	14,707	13,483	13.742	14,087	14.852	15.374	16.250	17.333
4. Electricity, Gas & Water	806	907	930	951	1,025	986	1.059	996	1,051	1,105	1,155	1.241
5. Construction & Public Works	4.521	4,058	3,698	3.714	3.518	3.389	2.662	2.637	3.019	3.218	3.297	3.364
6. Commerce	13,261	14,418	13,464	15.983	13,243	13.316	14.768	15.974	15.350	15.396	15.617	16.457
7. Transportation, Storage & Communications	7,321	8,174	7,799	7,840	8,471	8.873	9,346	9.825	9,868	10,074	10.361	10,771
8. Financial Establishments, Insurance, Real Estate, & Services to Companies	17,248	16,829	16,308	15,028	15,103	15,437	14,711	14,112	14.269	14,511	15,070	15,014
-Financial Services to Companies	7,189	6,704	6,126	4,740	4,745	5,046	4,292	4,110	4,017	4.156	4.487	4,622
-Housing	10,059	10,125	10,182	10,288	10,358	10.391	10,419	10.002	10,252	10,355	10.583	10.392
9. Social & Personal Services	4,881	4,857	4,710	4,256	4,002	3,886	3,819	3,704	3,741	3,756	3,832	3,858
-Banking Services (Imputed)	(1,932)	(1,867)	(1,733)	(1,453)	(1,370)	(1,416)	(750)	(718)	(702)	(726)	(784)	(871)
B. PUBLIC ADMINISTRATION SERVICES	12,940	13,193	13,749	13,312	12,777	12,041	10,118	10,365	10,210	10,336	10,809	11,026
C. DOMESTIC SERVICES	668	687	702	717	717	724	728	713	721	724	735	742
TOTAL: At Producer Prices	119,658	120,330	117,584	112,806	111,648	110,302	106.847	109,383	113.136	116,410	119,789	125,154
Indirect Taxes on Imports	3,288	3,753	1,090	572	1,048	1,306	1,981	2.276	1,827	1,811	1,527	1,187
TOTAL: At Prices to End Users	122,946	124,083	118,674	113,378	112,696	111,608	108,828	111,659	114,963	118.221	121,316	126,341
GDP % GROWTH RATE		0.9%	-4.4%	-4.5%	-0.6%	-1.0%	-2.5%	2.6%	3.0%	2.8%	2.6%	4.1%

(p) Preliminary.
(pj)Projected

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Table 12

EXTERNAL PUBLIC SECTOR DEBT OUTSTANDING TO SEPTEMBER 1991 (Mill of US$)	
	To Sept 1991
MULTILATERAL	1,696
Inter American Development Bank (IDB)	954
International Development Assistance (IDA)	400
International Bank for Reconstruction and Development (IBRD)	161
Corporacion Andina de Fomento (CAF)	121
Other	60
BILATERAL	1,413
Japan	380
Germany	264
Belgium	143
Brazil	141
United States (after forgiveness)	83
France	78
United Kingdom	72
Austria	69
Netherlands	56
Other	127
PRIVATE	257
TOTAL	3,366

Source: Central Bank of Bolivia

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Table 13

DEBT SERVICE PAYMENTS DURING 1989-1992 (In millions of US Dollars)				
	1989	*1990(pl)*	*1991(pl)*	*1992(e)*
Interest Paid or to be Paid	131.1	123.9	145.3	113.6
Interest not Paid (1)	130.5	102.2	91.8	106.7
Total Interest	261.6	226.1	237.1	220.3
Amortization Paid or to be Paid	113.5	104.4	82.3	101.9
Amortization not Paid (1)	73.4	134.4	136.5	131.9
Total Amortization	186.9	238.8	218.8	233.8
Total Debt Service Theoretically Due	**448.5**	**464.9**	**455.9**	**454.1**
-Total Debt Service that was and will be rescheduled	203.9	236.6	228.3	238.6
-Total Debt Service to be Paid (after rescheduling)	**244.6**	**228.3**	**227.6**	**215.5**
Exports of Goods and Services	868.6	953.0	925.2	902.5
Total Debt Service as % of exports of goods and services				
Before Rescheduling	**51.6%**	**48.8%**	**49.3%**	**50.3%**
After Rescheduling	**28.2%**	**24.0%**	**24.6%**	**23.9%**

(1) Includes amounts previously rescheduled at Paris Club meetings as well as those that the GOB hopes to reschedule in 1992.

(pl)preliminary
(e) estimated

SOURCE: USAID/Bolivia estimates based on Central Bank of Bolivia data.

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Table 14

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BOLIVIA SUMMARY OF BALANCE OF PAYMENTS FOR 1980 - 1992
(In millions of US$)

	1980	1981	1982	1983	1984	1985	1986	1987	1988(p)	1989(p)	1990(p)	1991(p)	USAID Proj. 1992(e)
I. CURRENT ACCOUNT (A+B)	-7.3	-465.7	-175.8	-138.1	-127.8	-281.9	-349.5	-444.4	-146.1	-13.6	-28.2	-259.9	-397.8
A. Goods, Services, and Interest (1+2+3)	-56.8	-505.3	-221.3	-244.3	-216.3	-351.9	-448.5	-570.1	-330.4	-169.9	-178.2	-442.4	-514.0
1. Merchandise	292.9	-53.0	250.2	166.0	232.9	71.5	-124.1	-303.4	-48.2	103.6	75.3	-175.5	-262.1
Exports FOB	942.2	912.4	927.7	755.1	724.5	623.4	549.9	472.6	542.4	723.5	805.3	765.9	735.3 (1)
Imports CIF (legitimate)	-579.4	-975.4	-577.5	-589.1	-491.6	-551.9	-674.0	-776.0	-590.6	-619.9	-730.0	-941.7	-997.4
2. Services	-53.8	-79.9	-57.7	-48.0	-80.2	-60.0	-10.3	-18.1	-19.0	-19.0	-19.9	-21.4	-23.7
Exports	89.3	94.2	83.5	104.5	95.0	95.0	156.1	129.3	130.7	145.1	147.7	150.3	167.2
Imports	-153.1	-173.1	-141.2	-152.5	-175.2	-159.0	-166.4	-147.4	-148.7	-164.1	-167.6	-180.7	-190.9
3. Earnings from Interest	-295.8	-363.4	-413.8	-352.3	-369.0	-373.4	-314.1	-248.6	-264.2	-254.5	-233.6	-245.2	-228.2
i) Received	14.2	15.0	7.2	39.4	28.5	16.0	23.4	18.5	15.8	22.1	15.1	22.7	21.5
ii) Due	-281.0	-378.4	-421.0	-401.7	-397.5	-389.4	-337.5	-267.1	-280.0	-276.6	-249.7	-267.9 (2)	-249.7 (3)
- Interest Paid on Medium and Long Term External Public Debt	-163.8	-185.2	-177.3	-228.5	-189.6	-89.8	-65.0	-85.6	-57.4	-81.0	-109.2	-145.3	-113.6
- Other Interest Paid	-97.7	-143.0	-135.6	-87.8	-102.3	-73.8	-62.9	-47.5	-35.0	-50.1	-14.7	-12.8	-5.4
- Interest not Paid	-4.5	-17.2	-84.6	-25.5	-63.2	-174.0	-170.4	-119.9	-155.0	-130.5	-102.2	-91.8	-106.7
- Other Income	-15.0	-30.0	-23.5	-55.8	-36.2	-52.8	-39.2	-14.1	-31.6	-15.0	-22.6	-18.0	-20.0
B. Unilateral Transfers	59.5	39.6	45.5	106.2	88.5	80.0	99.0	125.7	184.3	156.3	150.0	182.5 (4)	116.2 (5)
II. CAPITAL ACCOUNT	47.6	55.0	-324.0	-465.2	5.2	-210.3	1.5	17.4	42.3	-18.1	112.4	71.8	105.8
A. Direct Investment	43.9	75.6	31.0	6.9	7.0	10.0	12.6	22.0	30.0	35.0	35.0	50.0	60.0
B. Other Capital	3.7	-20.6	-355.0	-476.1	-1.8	-220.3	-11.1	-4.5	12.3	-53.1	77.4	21.8	45.8
i) Medium and Long-Term Capital	48.9	55.3	-207.5	-362.2	-132.3	-244.8	-116.4	-83.5	45.2	1.8	59.5	31.5	45.8
- Disbursements on Medium and Long-Term External Public Debt	253.3	323.9	210.9	57.9	155.8	108.7	330.1	207.9	319.8	334.3	294.6	254.7	279.6
- Amortizations Paid on Medium and Long-Term External Public Debt	-125.3	-108.8	-121.0	-101.4	-141.9	-159.3	-120.2	-76.6	-84.8	-113.5	-104.4	-82.3	-101.9
- Amortizations not Paid	-59.4	-140.4	-267.8	-353.1	-152.4	-164.7	-204.1	-203.9	-90.8	-73.4	-134.4	-136.5	-131.9
- Other Capital (Net)	-30.7	-9.4	-29.6	-5.6	-7.5	-5.5	-24.2	-11.0	-99.0	-145.6	3.7	-4.0	0.0
ii) Short-Term Capital (Net)	-45.2	-88.5	-147.5	-113.9	180.5	24.5	107.3	75.0	-32.9	-54.9	17.9	-10.1	0.0
III. ERRORS AND OMISSIONS(6)	-404.5	-196.4	43.4	116.7	-5.1	180.5	112.0	50.3	-81.4	-194.5	-83.2	74.1	66.7

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Table 14 (Continued)

BOLIVIA: SUMMARY OF BALANCE OF PAYMENTS FOR 1980 - 1992 (In millions of US$.)													USAID Proj.
	1980	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988(p)*	*1989(p)*	*1990(p)*	*1991(p)*	*1992(e)*
IV. TOTAL CURRENT TRANSACTIONS AND CAPITAL MOVEMENT (I+II+III)	-364.2	-607.1	-456.4	-490.6	-127.7	-311.7	-236.0	-366.7	-185.2	-226.2	1.0	-114.0	-225.3
A. COUNTERPART ITEMS	8.6	9.1	1.9	0.9	0.9	5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B. EXTRAORDINARY FINANCING	388.9	425.7	352.4	788.4	261.6	358.7	346.4	288.5	141.0	85.4	138.0	182.0 (7)	188.3 (8)
C. NET INTERNATIONAL RESERVES (Increase = -)	-33.3	172.3	102.1	-298.7	-134.8	-56.9	-110.4	78.2	44.2	139.8	-139.0	-68.0	37.0

(p) Preliminary.
(e) Central Bank estimates.

(1) Assumes that after the termination of the natural gas sales contract with Argentina on April, 1992, the same volume is sold at the international price of natural gas, which is about 65% lower than the current price paid by Argentina.
(2) Includes Paris Club I, II, and III debt reschedulings.
(3) Includes Paris Club IV debt reschedulings renegotiated in January, 1992.
(4) Includes AID's ESF Program disbursements during the year of US$44 million.
(5) Excludes AID's ESF Program disbursements.
(6) Includes "Errors and Omissions" and informal sector earnings (illegal imports and exports)
(7) Excludes AID's ESF Program.
(8) Excludes the last tranche of $22 million from AID's 1991 ESF Program and 1992 ESF Program disbursements.

SOURCE: For 1980-1991, Central Bank of Bolivia.
For 1992, USAID/Bolivia based on Central Bank of Bolivia's information.
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Table 15

NON-TRADITIONAL EXPORTS

(Mill US$)

	1976	1980	1984	1985	1986(1)	1987	1988	1989	1990(p)	1991(p)	PROJECTED 1992(2)
Timber	8.21	23.85	3.14	4.35	15.08	22.93	17.33	33.13	36.40	41.29	47.48
Wood Products	1.70	8.83	2.92	1.44	5.11	8.02	8.29	10.55	11.31	6.96	8.35
Livestock	2.40	1.31	1.58	1.17	13.42	6.75	0.50	6.40	48.79	13.43	20.27
Coffee	13.12	20.64	6.56	13.94	13.28	11.48	16.95	12.06	13.95	6.84	8.89
Soybeans & Subproducts	0.00	6.91	2.29	5.33	19.45	18.29	21.21	51.60	47.22	69.25	76.18
Sugar & Subproducts	42.13	50.51	6.56	1.75	4.85	6.42	5.49	19.00	31.70	25.67	29.34
Brazil Nuts	2.58	2.77	2.22	1.47	3.54	6.88	5.63	10.24	15.19	10.58	12.17
Cacao & Subproducts	0.55	1.76	0.28	0.95	3.56	0.93	0.82	1.53	3.41	1.00	1.15
Leather & Subproducts	0.99	4.88	0.62	1.33	6.77	8.25	19.76	17.45	26.23	13.54	16.25
Rubber & Subproducts	2.35	4.79	0.73	0.52	3.76	1.67	2.19	0.16	1.44	1.04	1.25
Cotton & Subproducts	12.50	0.95	0.51	0.71	4.68	6.78	2.78	11.11	8.01	14.59	17.50
Trioxide Alloys	0.00	16.64	4.31	4.18	3.83	1.76	2.50	5.00	0.91	4.00	4.40
Others(4)	3.86	19.39	1.91	0.98	6.55	8.14	8.35	29.32	49.41	46.46	55.74
- Maize	-	-	-	-	-	0.00	-	1.41	4.14	0.62	2.00
- Beans	-	-	-	-	-	0.03	0.11	0.25	1.75	7.10	8.17
- Rice	-	-	-	-	-	-	-	0.08	3.81	0.94	1.03
- Cochineal	-	-	-	-	-	-	0.28	0.22	3.24	1.49	1.71
- Cut Flowers	-	-	-	-	-	0.04	0.20	0.59	1.04	1.20	1.32
- Jewerly	-	-	-	-	-	-	0.01	-	2.84	4.16	4.79
- Biliary Extracts	-	-	-	-	-	-	-	0.69	3.39	1.74	1.91
- Sulphur Antimony	-	-	-	-	-	-	0.33	2.62	3.10	1.30	1.43
TOTAL	90.39	163.23	33.83	38.16	103.88	108.30	111.80	207.60	293.98	260.64	298.97

(p) preliminary

(1) The sharp decline over 1981-85, followed by dramatic recovery in 1986, reflects the disruption caused by the hyperinflation in combination with a highly overvalued exchange ra which all but eliminated all profit from legal exports during 1982-1985.

(2) Mission estimates, assuming the GOB executes economic policies favorable to the promotion of exports including a flexible real exchange rate, an effective drawback system on imported inputs used by export industries, and provision of credit and technical assistance for the export sector.

SOURCE: DICOMEX, Ministry of Industry and Commerce.
SUMMARIZED BY: USAID/B

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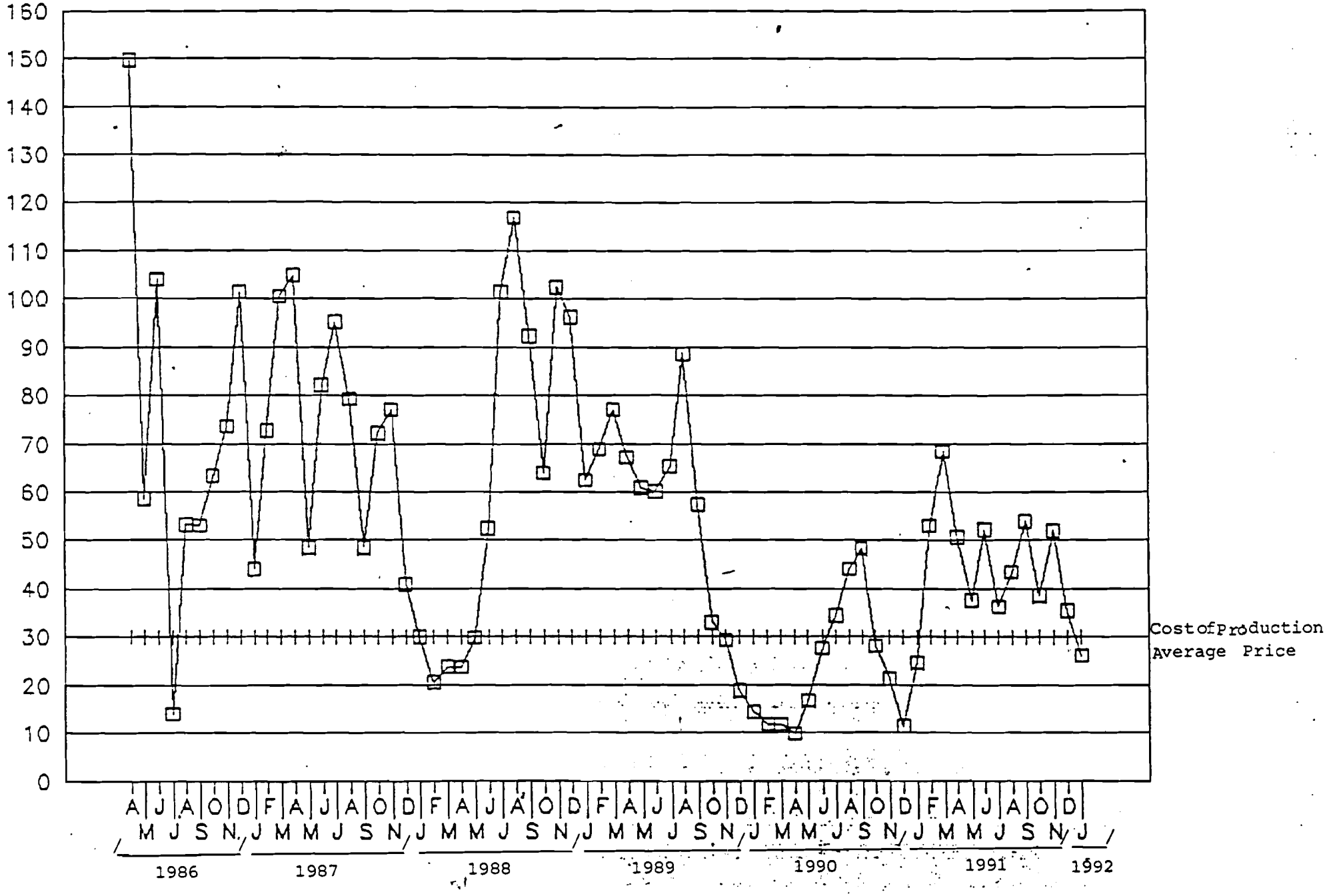
COCA PRICE: APR86 — JAN92

Table 16 (A)

US$/100 LBS.



COCA PRICE (1)

(US$/100 lbs)

1986 / 1987

LOCATION	APR86	MAY86	JUN86	JUL86	AUG86	SEP86	OCT86	NOV86	DEC86	JAN87	FEB87*	MAR87*	APR87*	MAY87*	JUN87	JUL87	AUG87	SEP87	OCT87	NOV87	DEC87
P.GARZAMA	152.26	52.51	94.49	13.13	47.13	46.99	57.26	62.34	93.56	38.93					67.63	90.38	57.42	42.65	60.55	74.91	35.13
NAHOTA	147.01	57.76	104.99	10.50	49.75	49.61	62.46	70.13	101.36	41.53	72.67	100.65	104.90	48.54	72.46	99.52	73.68	45.97	72.19	68.93	40.02
TERAMAZAMA	149.64	65.64	112.87	18.38	62.84	62.66	70.27	88.31	109.15	51.91					106.28	95.67	106.70	56.87	84.07	87.37	47.51
VERAGE	149.64	58.64	104.12	14.00	53.24	53.09	63.33	73.59	101.36	44.12	72.67	100.65	104.90	48.54	82.13	95.19	79.27	48.50	72.27	77.07	40.89
OST OF PRODUCTION	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00

1988 / 1989

LOCATION	JAN88	FEB88	MAR88	APR88	MAY88	JUN88	JUL88	AUG88	SEP88	OCT88	NOV88	DEC88	JAN89	FEB89	MAR89	APR89	MAY89	JUN89	JUL89	AUG89	SEP89	OCT89	NOV89	DEC89
P.GARZAMA	22.82	14.35	16.98	18.11	26.35	46.64	95.00	109.67	85.37	57.74	95.02	89.37	55.38	61.00	70.17	53.83	53.61	51.67	57.15	78.72	49.95	26.76	23.94	14.14
NAHOTA	27.73	18.72	19.95	20.88	25.86	48.67	99.11	115.24	89.42	62.02	99.75	93.64	62.13	53.00	74.41	63.99	57.40	56.43	62.77	83.66	54.21	30.93	27.26	17.69
TERAMAZAMA	39.11	28.57	34.35	31.84	37.18	62.01	109.94	125.59	102.04	72.14	112.48	105.71	69.80	50.86	56.90	77.53	71.55	72.35	76.03	103.42	67.97	41.28	36.67	24.61
VERAGE	29.89	20.55	23.76	23.61	29.80	52.44	101.35	116.83	92.27	63.57	102.42	96.24	62.43	58.95	77.16	67.11	60.88	60.15	65.32	85.60	57.37	32.99	29.29	18.81
OST OF PRODUCTION	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00

1990 / 1991

LOCATION	JAN90	FEB90	MAR90	APR90	MAY90	JUN90	JUL90	AUG90	SEP90	OCT90	NOV90	DEC90	JAN91	FEB91	MAR91	APR91	MAY91	JUN91	JUL91	AUG91	SEP91	OCT91	NOV91	DEC91
P.GARZAMA	10.56	9.52	10.00	8.27	14.03	24.31	32.16	40.88	44.14	25.87	22.99	9.93	23.41	53.40	66.97	51.42	39.18	50.73	40.19	42.90	50.55	39.51	49.46	40.75
NAHOTA	13.45	11.65	12.19	9.88	16.74	26.96	35.02	44.30	47.43	25.81	20.53	12.99	26.71	57.23	72.74	53.61	40.14	53.53	36.71	41.96	57.37	39.72	56.49	36.73
TERAMAZAMA	15.29	14.27	13.41	11.43	19.42	31.02	36.25	47.33	53.40	30.54	20.50	11.28	23.73	46.47	65.49	47.37	33.30	52.00	31.39	45.50	50.49	36.31	50.00	29.59
VERAGE	14.43	11.85	11.87	5.86	16.73	27.53	34.48	44.17	48.32	28.11	21.34	11.39	24.62	53.04	68.40	50.90	37.54	52.18	36.27	43.45	54.00	38.60	51.98	35.29
OST OF PRODUCTION	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00

1992

LOCATION	JAN92
P.GARZAMA	30.03
NAHOTA	27.80
TERAMAZAMA	20.76
VERAGE	25.20
OST OF PRODUCTION	30.00

verage price for the month.
verage price for the region

1.- The cost of production of $30 includes all the investment costs and operating costs of producing coca. It is estimated that the marginal cost of production, mainly harvesting is about $12 to $15 per carga. These figures were confirmed in April, 1991.

DIRECO: Direccion Nacional de Reconversion Agricola (DIRECO)
- An entity of the Ministry of Interior that controls the production and eradication of coca.

MARIZED BY DAntezana

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Table 17

ERADICATION OF COCA IN THE CHAPARE OVER 1990 AND 1991 (in hectares)			
MONTH	1990	1991	
January	668	751	
February	798	466	
March	801	225	
April	1,093	202	
May	512	350	
June	505	353	
July	699	748	
August	705	786	
September	503	402	
October	403	401	
November	552	403	
December	550	600	(pj)
TOTAL	7,889	5,687	

(pj) Projected; additional eradication in January, 1992, amounted to 325 hectares, for a total of 6,012 over 13 months.

SOURCE: DIRECO

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ANNEX B

INITIAL ENVIRONMENTAL EXAMINATION

Project Location:	Bolivia
Project Title:	Economic Stabilization and Recovery (FY 92 ESF Balance of Payments Program)
Project Number:	511-0604
Funding:	$66 million (ESF)
Life of Project:	1 year (FY 92)
IEE Prepared by:	Michael Yates USAID/Bolivia

Recommended Threshold Decision:

a. Recommendation:

The project consists of a cash transfer to provide balance of payments assistance to support economic stabilization and recovery in Bolivia in FY 1992. Funds from this program provide balance of payments assistance in support of the Government of Bolivia's economic stabilization and reactivation efforts. The dollars provided will be used to finance payment of U.S. and multinational official debt and private sector imports of machinery and equipment, spare parts, and raw material from the U.S. The local currency proceeds of the Program will be used to finance local currency counterpart to selected USAID and multilateral development organizations' projects and the USAID OE Trust Fund. Availability of funds under this program is made contingent upon compliance with the conditions mutually agreed upon between the GOB and A.I.D. on the 1992 program.

In all cases, funds made available under this PAAD will be programmed through Bolivia's Ministry of Planning.

Pursuant to A.I.D. environmental regulations (22 CFR 216.2 (c) (1) (ii)), an IEE is generally not required when:

"A.I.D. does not have knowledge of or control over, and the objective of A.I.D. in furnishing assistance does not require, either prior to approval of financing or prior to implementation of specific activities, knowledge of or control over, the details of the specific activities that have an effect on the physical and natural environment for which financing is approved by A.I.D."

Moreover, Handbook 3, Chapter 2, Appendix 2D, Section 216.2 (c) (2) (vi) states that "Contributions to international, regional or national organizations by the United States which are not for the purpose of carrying out a specifically identifiable project or projects" are not subject to A.I.D.'s environmental procedures. The above exemptions do not apply, however, to assistance for the procurement or use of pesticides.

The FY 1992 Balance of Payments program will not provide support for the import, purchase or use of pesticides. A condition will be placed in the program agreement between the GOB and A.I.D. that no pesticides will be procured or used without first doing an Environmental Assessment and having it approved by the LAC Bureau Environmental Officer.

Based on A.I.D. regulations in Handbook 3, Chapter 2, the A.I.D. Mission to Bolivia recommends that no further environmental study be undertaken for this PAAD and that a "categorical exclusion" be approved.

CONCURRENCE:

Carl H. Leonard
Director, USAID/Bolivia

64091

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ANNEX A

3A(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. Narcotics

a. Negative certification (FY 1991 Appropriations Act Sec. 559(b)): Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

-No.

b. Positive certification (FAA Sec. 481(h)). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement?

-Yes.

(2) has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals

agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (b) the vital national interests of the United States require the provision of such assistance?

- Prior to obligation of funds during FY 92 for the Bolivian Balance of Payment Program, the Executive Branch will have made the certification required under FAA Sec. 481(h). AID/W will advise USAID/Bolivia when the obligation may be made pursuant to Section 481 and Sec. 559 of the FY 91 Appropriations Act, if then applicable.

c. Government Policy (Anti-Drug Abuse Act of 1986, Sec. 2013(b)). (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

- (a) No.
- (b) No.
- (c) No.
- (d) No.

- These answers are made as of March 4, 1992. These matters should be checked again after the Sec. 481 (h) certification and before obligation.

2. Indebtedness to U.S. citizens (FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

-(a), (b) and (c): All No.

3. Seizure of U.S. Property (FAA Sec. 620(e)(1)): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

- No.

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4. Communist countries (FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b).removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

- Not a communist country; No; No.

5. Mob Action (FAA Sec.620(j)): Has the country permitted or failed to take adequate measures to prevent damage or destruction by mob action of U.S. property?

- No.

6. OPIC Investment Guaranty (FAA Sec. 620(1)): Has the country failed to enter into an investment guaranty agreement with OPIC?

- No.

7. Seizure of U.S. Fishing Vessels (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

- (a) No, (b) N/A.

8. Loan Default (FAA Sec. 620(q); FY 1991 Appropriations Act Sec. 518 (Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1991 Appropriations Act appropriates funds?

(a) No, (b) No.

9. Military Equipment (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

- Yes, this will be taken into account by the Administrator when approving the FY 92 OYB.

10. Diplomatic Relations with U.S. (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

- No; N/A.

11. U.N. Obligations (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

- USAID/B believes that Bolivia is not in arrears. AID/W should refer to "Taking into Consideration" memorandum for FY 92.

12. International Terrorism

a. Sanctuary and support (FY 1991 Appropriations Act Sec. 556; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

- (a) No. (b) No.

b. Airport Security (ISDCA of 1985 Sec. 552(b)): Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

- No.

13. Discrimination (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

- No.

14. Nuclear Technology (FAA Secs. 669, 670): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

- No to all questions.

15. Algiers Meeting (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

- See past "Taking into Consideration" memoranda, e.g. for FY 88.

16. Military Coup (FY 1991 Appropriations Act Sec. 513): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

- No; N/A.

17. Refugee Cooperation (FY 1991 Appopriations Act Sec. 539); Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

- Yes.

18. Exploitation of Children (FY 1991 Appropriations Act Sec. 599D, amending FAA Sec. 116): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

No.

C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

1. Human Rights Violations (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

No; N/A.

3A(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

- Yes.

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

- The Program supports the restructuring of the Bolivian economy and thus its greater liberalization, diversification and expansion. Such conditions offer increased opportunities for international trade and private sector development. ESF dollars will be used in part for importation of raw materials, intermediate goods, etc. from the U.S. for the productive private sector.

2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

- Improved economic stabilization and policy reform measures supported by the program will enhance potential U.S. trade and investment. Further, U.S. firms will profit from providing spare parts, raw materials, etc. financed through U.S. ESF dollar resources.

3. Congressional Notification

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A) If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

- Congress will be fully notified before obligation.

b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

- N/A.

c. Cash transfers and non-project sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or non-project sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

- The CN will include such information.

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

- Yes.

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

- Not required.

6. Water Resources (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for guidelines.)

-N/A.

7. Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or non-project sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for non-project sector assistance)?

- Yes.

8. Capital Assistance (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

- N/A.

9. Multiple Country Objectives (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

-See No. 2 above.

10. U.S. Private Trade (FAA Sec. 601 (b)): Information and conclusions on how project will encourage U.S, private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

- At least half of the cash transfer dollars, or $33 million, will be used for reimbursement for productive imports from U.S. private sources.

11. Local Currencies

a. Recipient Contributions (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currency to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

- The GOB must contribute $66 million worth of local currency to the program.

b. U.S.-Owned Currency (FAA Sec.612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

- No.

c. Separate Account (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has AID (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of AID and that government to monitor and account for deposits into and disbursements from the separate account?

- Yes, these matters will all be covered in the ESF Program Grant Agreement.

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

- Yes.

(3) Has AID taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

- Yes.

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

- Yes.

12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

- No.

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

- Bolivia is covered by Bumpers and Lautenberg waivers in the FY 91 AA Sec. 559 and in Sec. 6 of the INCA 1990.

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

- No.

14. PVO Assistance

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of AID, and is the PVO registered with AID?

- N/A.

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

- N/A.

15. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and AID LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

- USAID/Bolivia will comply with these requirements after signing the Program Grant Agreement.

16. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through AID policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will AID specifications use metric units of measure from the earliest programmatic stages, and from earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

- N/A, as cash transfer.

17. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

- N/A, as cash transfer.

18. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

- No. Bilateral cash transfer to Bolivia.

19. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

- No.

b. Will any funds be used to lobby for abortion?

- No.

20. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

- N/A.

21. U.S.-Owned Foreign Currencies

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

- The Program Grant Agreement will reserve $6.0 million worth of local currency for the administrative and operational needs of USAID.

b. Release of currencies (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

- No.

22. Procurement

a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

- Yes.

b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

- Yes.

c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

- Yes.

d. Non-U.S. agricultural procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

- N/A.

e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

- No.

f. Cargo preference shipping (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

- N/A as cash transfer.

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

- N/A.

h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

- N/A.

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

- Yes.

j. Consulting services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

-N/A.

k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through AID policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will AID specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

- Yes, insofar as applicable to cash transfer.

l. Competitive Selection Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

- N/A, as cash transfer.

23. Construction

a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

- N/A.

b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

- N/A.

c. Large projects, Congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

- N/A.

24. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

- N/A.

25. Communist Assistance (FAA Sec. 620(h)): Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

- Yes.

26. Narcotics

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

- Yes.

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the Limited States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

- Yes, USAID/Bolivia has designed and is implementing a screening system under Sec. 487.

27. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

- Yes.

28. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

- Yes.

29. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities?

- Yes.

30. Motor Vehicles (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?

- Yes.

31. Military Personnel (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?

- Yes.

32. Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues?

- Yes.

33. Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?

- Yes.

34. Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?

- Yes.

35. Repression of Population (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

- Yes.

36. Publicity or Propoganda (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

- No.

37. Marine Insurance (FY 1991 Appropriations Act Sec. 563): Will any AID contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

- Yes.

38. Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

- No.

C. CRITERIA APPLICA8LE TO ECONOMIC SUPPORT FUNDS ONLY

1. Economic and Political Stability (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

- Yes; Yes.

2. Military Purposes (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

- No.

3. Commodity Grants/Separate Accounts (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).)

- N/A, not a grant of commodities.

4. Generation and Use of Local Currencies (FAA Sec, 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).)

- Yes; Yes.

5. Cash Transfer Requirements (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)). If assistance is in the form of a cash transfer:

a. Separate account: Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?

- Yes.

b. Local currencies: Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has AID entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to ke used, and the responsibilities of AID and that government to monitor and account for deposits and disbursements?

- Yes. The Program Grant Agreement will cover these matters in detail.

c. U.S. Government use of local currencies: Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

- Yes.

d. Congressional notice: Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

- Yes, Congress will be duly notified prior to obligation.

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Bolivia
Project Title	:	Economic Stabilization and Recovery (FY 92 ESF Balance of Payments Program)
Project Number	:	511-0604
Funding	:	$ 66 million (ESF)
Life of Project	:	1 year (FY 92)
IEE Prepared by	:	ARD: Michael Yates USAID/Bolivia
Recommended Threshold Decision	:	Categorical Exclusion
Bureau Threshold Decision	:	Concur with Recommendation
Comments	:	Concurrence subject to condition stated in IEE and placed in approval documents that no pesticides will be procured without first doing an Environmental Assessment and having it approved by the LAC Chief Environmental Officer.

Copy to	:	Carl H. Leonard, Director
Copy to	:	USAID/BOLIVIA
Copy to	:	Michael Yates, USAID/Bolivia
Copy to	:	Olivier Carduner, LAC/DR/SA
Copy to	:	Howard Clark , REA/SA
Copy to	:	IEE File

John O. Wilson
Deputy Chief Environmental Officer
Bureau for Latin America and the Caribbean

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