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UNCLASSIFIED

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

BOLIVIA

PROJECT PAPER

ECONOMIC STABILIZATION AND RECOVERY PROGRAM
PAAD

AID/LAC/P-711

PROJECT NUMBER: 511-0602
GRANT NUMBER : 511-K-606

UNCLASSIFIED

CLASSIFICATION

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number: 511-K-606
2. Country: Bolivia
3. Category: Cash Transfer
4. Date:
5. To: AA/LAC, James H. Michel
6. OYB Change Number:
7. From: LAC/DR, Peter J. Bloom
8. OYB Increase: To be taken from: Bolivia Bilateral and Andean Counternarcotics Initiative Accts
9. Approval Requested for Commitment of: $ 44,000,000
10. Appropriation Budget Plan Code: LES191-35511-KG31
11. Type Funding: ☐ Loan ☒ Grant
12. Local Currency Arrangement: ☐ Informal ☒ Formal ☐ None
13. Estimated Delivery Period:
14. Transaction Eligibility Date:
15. Commodities Financed:

16. Permitted Source		17. Estimated Source	
U.S. only		U.S.	$44,000,000
Limited F.W.		Industrialized Countries	
Free World		Local	
Cash	$44,000,000	Other	

18. Summary Description The purpose of the ESF program is to provide support to the Government of Bolivia's (GOB) counter-drug and economic stabilization and reactivation efforts. The dollar funds may be used to service official U.S. Government and multilateral debt, finance U.S. imports, or finance (up to $6.0 million) the GOB buy-back of public debt held by commercial banks. The GOB will provide local currency equivalent to a portion of the dollars provided by the USG for activities/purposes jointly programmed by the GOB and A.I.D.

The $66 million grant is being provided in two obligations: $22 million, obligated immediately upon program approval; and $44 million, conditioned on the President's submission of the annual Certification to Congress required under Section 481(h) of the FAA, and passage of the Congressional review period without objection. This condition has been met. The Presidential determination required under Section 4(a) of the International Narcotics Control Act of 1990, and the required findings under Section 559(a)(2) of the FY 1991 Appropriations Act have been made.

The $66 million will be disbursed in three tranches of $22 million each. Disbursements will be subject to GOB compliance with conditions and covenants presented in Section XIII of this document.

"I certify that the methods of payment and audit plan are in compliance with payment verification policy."

LAC/Controller Date R McClure

19. Clearances		Date
DAA/LAC:AWilliams		
GC/LAC:KHansen	KH	8/29/91
LAC/SAM:NParker		8/23/91
LAC/DPP:RMcClure		8/2/91
PPC/PB:TBarker		8/23/91
STATE/ARA/ECP:CBryant	phone	8/29/91
LAC/DPP:BBrockie		8/2/91
LAC/DPP:BSchouten		8/22/91
PFM/FM/A:RBonnaffon		

20. Action: ☒ APPROVED ☐ DISAPPROVED

Authorized Signature: James H Michel

Date: 8/29/91

Title:

CLASSIFICATION UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number: 511-K-606	
2. Country: Bolivia	
3. Category: Cash Transfer	
4. Date	
5. To: AA/LAC, James H. Michel	6. OYB Change Number: LAC-91-93
7. From: LAC/DR, Jeffrey W. Evans	8. OYB Increase — To be taken from: Andean Narcotics Initiative
9. Approval Requested for Commitment of $ 22,000,000.	10. Appropriation Budget Plan Code: LES191-35511-KG31
11. Type Funding: ☐ Loan ☒ Grant — 12. Local Currency Arrangement: ☐ Informal ☒ Formal ☐ None	13. Estimated Delivery Period — 14. Transaction Eligibility Date
15. Commodities Financed	
16. Permitted Source	17. Estimated Source
U.S. only	US $22,000,000
Limited F.W.	Industrialized Countries
Free World	Local
Cash $22,000,000	Other

18. Summary Description

The purpose of the ESF program is to provide support to the Government of Bolivia (GOB) counter-drug and economic stabilization and reactivation efforts. The dollar funds may be used to service official U.S. Government and multilateral debt, to finance U.S. imports, or to finance (up to $6.0 million) the GOB buy-back of public debt held by commercial banks. The GOB will provide local currency equivalent to a portion of the dollars provided by the USG for activities/purposes jointly programmed by the GOB and A.I.D.

The $66 million grant will be provided in two obligations: An initial $22 million will be obligated immediately, and the remaining $44 million will be obligated once the President has submitted the annual Certification to Congress required under Section 481(h) of the FAA and the Congressional review period has passed without objection. The Presidential determination required under Section 4(a) of the International Narcotics Control Act of 1990, and the required findings under Section 559(a)(2) of the FY 1991 Appropriations Act have been made.

The $66 million will be disbursed in three tranches of $22 million each. Disbursements will be determined by the GOB meeting conditions and covenants presented in Section XIII of this documents.

"I certify that the methods of payment and audit plan are in compliance with payment verification policy."

LAC/Controller — Date 3/26/91

19. Clearances	Date
A/DAA/LAC:PBloom	
GC/LAC:TGeiger	3/21/91
LAC/SAM:NParker	3/15/91
LAC/DPP:CAdams	3/26/91
PPC/PB:TBarker	3/21/91
STATE/ARA/ECP:CBryant	3/20/91
LAC/DPP:BBrockie EPB	3/15/91
LAC/DPP:BSchouten BS	3/25/91
PFM/FM/ARBonnaffon	4/91

20. Action: ☒ APPROVED ☐ DISAPPROVED

Authorized Signature — Date 4/5/91

Title: Acting AA/LAC

CLASSIFICATION UNCLASSIFIED

January, 1991

PAAD FOR FY-1991

TABLE OF CONTENTS

PAAD FY-1991

TABLES

I. INTRODUCTION

This PAAD follows closely the outline of the FY-90 PAAD and updates the Concept Paper completed in July, 1990, in areas where more recent data were available. It also provides a much fuller analysis of economic trends, documents the findings through data presented in 15 tables (appended), and adds the following new sections:

- Review of progress in the areas of eradication, interdiction and alternative development (incorporated in Section IX).

- Discussion of Issues Raised by AID/W in the August 22 Guidance Cable (STATE 280677).

- Expanded discussion of the US Mission's program in the areas of eradication and alternative development (Section IX).

- Other Donor Assistance (Section X).

Four covenants were added to those listed in the Conditionality Section of the Concept Paper. The background section was kept brief as the PAADs for FY 1989 and 90 provided a detailed account (and evaluation) of the policies of the Paz Estenssoro Government to stabilize the economy and set the basis for economic reactivation.

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, opened completely 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, devalued the local currency 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 276% in 1986, 14.6% in 1987, 16% in 1988 and 15.2% in 1989.

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 institutions, 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. Basically, the government's program aimed at a 4% real GDP growth rate for 1990, an inflation rate of no more than 9%, and a gain in net international reserves of $105 million. 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 October of 1989, the Paz Zamora government met with the Consultative Group in Paris. The results of the meeting were positive as the international community expressed interest in continuing its financial support to Bolivia. Working groups were set up to develop an international approach to reduce Bolivian dependence on illicit coca production, to support Bolivia's buy-back scheme for its commercial debt as well as its efforts to renegotiate its bilateral debt under the auspices of the Paris Club, and to prepare an action plan to improve the management of Bolivia's natural resources.

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. Various creditor countries chose from three different alternatives, including reduction of debt service payments, extending the maturity period or reducing interest rates. The United States chose to reschedule Bolivia's debt falling due to twenty-five years with a fourteen-year grace period. The USG and the GOB signed the bilateral rescheduling agreement in November, 1990.

When the Paz Zamora government assumed power in August, 1989, the level of net international reserves had declined by approximately $226 million since December 31, 1988 (to minus $65 million). Net international reserves recuperated to about $19 million as of December, 1989, and $136 million as of October, 1990 (see Table 6), realizing a gain of $201 million since the new government assumed power. Money supply (M1) is estimated to have increased by 3.1% (which represents an 11% decline in real terms) during all of 1989 and by 33% during the last twelve months ending October 1990, as shown in Table 3.

The deficit of the consolidated non-financial public sector for 1989 is estimated at 5.4% of GDP (Table 7), indicating compliance with the IMF agreement, permitting only a small saving of about 1.0% of GDP. This amount was not sufficient to carry out the 1989 planned public investment program, equivalent to 9.7% of GDP. For 1990, preliminary estimates based on information for the first three quarters indicate a considerable decline in the public sector deficit to 3.2% of GDP as a result of an increase in public savings of more than 100% in real terms, in relation to 1989 and a reduction of public investment by about 25% (also in real terms).

Partial restoration of confidence in the government was reflected in the behavior of bank deposits. These not only recovered to previous levels after an 18% decline (in dollar terms) in the last two months prior to the election, but increased by 32% (in dollar terms) between August 30 and December 31, 1989. As of October, 1990, total deposits increased by an additional 35% since December of 1989 (Table 5). However, the proportion of dollar deposits rose to 81% of total deposits at the end of 1989 and were mostly in the form of 30 to 60 day time deposits, indicating that the boliviano still fails to perform the "store of value" function of money. The real GDP for 1989 is estimated to have grown by only 2.4% (Table 10), representing another probable decline in per capita income.

A number of factors are continuing to impede a vigorous recovery. These include the Central Government's financial situation (which suffers from a serious structural problem), credit tightness, high interest rates, delays by Argentina in settling its arrears, and continuing uncertainties in the private sector with respect to implementation of the "rules of the game" toward the private sector by the Paz Zamora Government. The government has been addressing some of the impediments to economic reactivation, though much remains to be done.

III. PROJECT RATIONALE

The basic rationale for the proposed ESF balance of payments assistance program for FY 90 is as follows:

- 1. The ESF program will contribute scarce foreign exchange resources to help the GOB settle its debt service charges to multilateral donors and to pay for imports of raw materials, spare parts, intermediate and capital goods from the United States. Boosting the country's foreign exchange resources is essential to cover import requirements associated with GDP growth. Over 1980-86, the real GDP dropped by 13% and real per capita GDP by about 25%. Growth since then has been at the sluggish rate of 2.1% to 2.8% annually, too low to permit 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 the losses to the Bolivian economy resulting from the fall in the prices of tin and natural gas.

- 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 requirements arising from the need to compensate the GOB for such losses, and to undertake investment in alternative activities to gradually replace earnings from coca, was not included in our balance of payments projection for 1990-91 presented in Table 13. The Mission estimates that in 1989, the country's net foreign exchange earnings from cocaine exports, after deducting earnings kept abroad, amounted to $100 to $150 million. While this estimate is admittedly based on very uncertain data, there is no doubt that 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 IX) and the sharply declining prices of coca leaf, paste and base. 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 $800 million to $1.2 billion over a five-year period, or at an average annual rate of $160 to $240 million. The GOB's estimate is considerably higher.

- 3. The need to increase Bolivia's net international reserves which declined by $228 million over 1986-89, though they are projected to increase by some $150 million in 1990. However, much of this increase in Bolivia's international reserves resulted from the Central Bank's sale of short-term (60 to 90 day) certificates of deposit made possible by the offer of very high interest rates (15 to 17 percent), and thus does not reflect a significant strengthening of the country's balance of payments position (See Table 6A). The need is to build-up reserves that are not matched by an increase in the short-term obligations of the Central Bank.

- 4. The ESF program generates local currency funds used to provide the GOB counterpart to fund key USAID projects (including the Alternative Development Program) and other multilateral donor projects. Failure to provide these funds for AID projects would affect significantly the Mission's effectiveness in achieving its objectives as the funds to be provided under the ESF Program for counterpart purposes constitute about 39% of total DA obligations for FY-91. Similarly, the GOB's inability to provide ESF generated local currency funds as counterpart for other donor projects would impede the disbursement of about $50 million in funds they would provide. Furthermore, this local currency provides credit to farmers shifting to other crops which, if unavailable, could affect crop substitution of about 1,200 to 2,500 hectares, or about 36% to 56% of the total credit planned for crop substitution. Finally, a balance that is sterilized to contribute to the GOB stabilization program. (For a full discussion of the proposed use of ESF local currency generations, see Section XII). Since the GOB is not able to provide local currency counterpart from its own resources, the local currency generations resulting from our balance of payments assistance play a key role in facilitating the GOB public investment program supported by AID and the multilateral donor agencies.

- 5. The ESF program has also been, and will continue to be, an important USG instrument for encouraging continued GOB cooperation in the area of narcotics control. Close GOB-USG cooperation has resulted in the destruction of a substantial number of laboratories and processing facilities, the arrest of some of the most important narcotraffickers in Bolivia and the extradition of the second most important GOB official during the García Meza regime (1980-81). Since September, 1989, substantial progress also has been achieved in implementing the government's voluntary coca eradication program (See Section IX).

- 6. Finally, a high Mission priority is to maintain continued U.S. support for Bolivia's democratically elected government that has shown considerable political courage in taking the necessary steps to stabilize the economy, reduce unnecessary government controls, establish a much more favorable environment for growth in the private sector, and undertake a determined campaign to eliminate narcotics trafficking. Bolivia merits continuing U.S. support to consolidate the democratic process.

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) private sector led economic recovery and promotion of self-sustaining economic growth, and (c) narcotics control. 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, and merit continued USG support. Further assistance to the GOB's stabilization and recovery efforts will also help advance USG narcotics and democracy-related goals. The survival of the democratic form of government and of the liberal economic model now in place are likely to depend, in large measure, on the success of the economic policies currently being pursued.

IV. ECONOMIC STABILIZATION

A. Price Level

The rate of inflation for the first eleven months of 1990 was officially reported at 15.5%, while the increase in the price index during the twelve-month period ending on November 30, 1990, was 17.7% (See Table 1). Note that the official price index is believed to understate the actual rate of inflation, which may have been on the order of 20% to 25% per annum, in both 1989 and 1990. Thus, while relative price stability has been achieved, it is still far from complete.

B. Exchange Rate

Following a 93% devaluation of the Bolivian peso when the stabilization program was implemented, the parallel exchange rate rose gradually from 1,724,200 pesos bolivianos to $1 in December 1985, to 3,170,000 pesos bolivianos (or 3.17 bolivianos, in the new currency unit) to $1 as of July 1, 1990, (See Table 2), and to 3.34 bolivianos in November, 1990. The spread between the official and parallel exchange rates is rarely more than a percentage point.

The GOB has committed itself to the IMF to maintain a flexible, market determined exchange rate. In a recent study undertaken by the Mission, it was found that between October 1986 and October 1990, the Bolivian consumer price index rose by 77%, compared with a 71% increase in the price of the dollar in the auction market. When the 22% increase in the US price index over this period is deducted from the increase in Bolivia's price index, we obtain the percentage by which the value of the dollar should have increased in the foreign exchange market to just maintain Bolivia's competitiveness over this four-year period. That percentage is 55%. Since the dollar in fact rose by 71%, the boliviano was allowed to depreciate in real terms, thus permitting some improvement in Bolivia's ability to export.

The boliviano may still be somewhat overvalued. Without the infusion of a substantial amount of "coca-dollars" into the economy in recent years, the current exchange rate could not have been maintained. However, a faster rate of depreciation of the boliviano may well accelerate inflationary pressures owing to Bolivia's heavy dependence on imported goods and the persistence of inflationary expectations.

C. Credit Policy and Money Supply

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 1989 and 3.1% in 1989 (see Table 3). This reduction clearly reflects the efforts of the GOB to control inflation. Similarly, the rate of increase of M2 (M1 plus time, savings and foreign exchange deposits) declined from 7,200% in 1985 to 170% in 1986, 47% in 1987, 39% in 1988 and 31% in 1989 (see Table 3).

A deceleration in the rate of increase of money supply resulted 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 11% p.a. in 1986 and 1987, 17% in 1988 and 19.3% in 1989 (see Table 4). The rate of 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 (see Table 4). Total credit expansion to both the public and private sectors increased by 33% during the twelve-month period ending in June 30, 1990 (see Table 4). This expansion was further reduced during the first semester of 1990 to 14%, or about 28% on an annual basis. This credit expansion led to a 67% expansion in total liquidity during the twelve-month period ending on June 30, 1990 (See Table 3).

The rate of increase of money supply (M1) during the twelve months ending in October 1990 was 33%. During the first ten months of 1990, money supply (M1) increased by 18% (Table 3) which, compared with a rate of inflation of 12.3%, represented a real growth of 5.7%.

As a result of the partial restoration of public confidence, the economy has started a period of rapid "remonetization." Between 1982 and 1986, the economy had "demonetized" drastically, reflected in the decline in 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 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 and 1989, this proportion recovered to 3.9%, 6.1%, and 5.7% 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, the M2/GDP ratio further increased to 17.1%, reflecting the public's willingness to build up their short-term bank deposits. This behavior shows that Bolivia's financial system is recovering its "financial depth", owing partly to the restoration of public confidence and partly to high positive interest rates. Nevertheless, the ratio of M2 to GDP is still below the 1981 level. Its continued recovery can be expected as confidence is gradually regained.

D. Total Bank Deposits

Mainly as a result of the "dedollarization"1/ of November 1982 and the hyperinflation, the real value of bank deposits and the overall savings of the population contracted drastically between 1980 and 1984. 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 5). As of December 1989, total deposits had risen back to $585 million, and rose further to $791 million as of October 31, 1990.

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). During the twelve months ending in October 1990, 1989, local currency time deposits increased by 23%, while dollar denominated deposits increased by 46%.

This uneven increase in total deposits reflects the continued "dollarization" of the economy. Dollar deposits and bolivianos with a "maintenance of value" clause increased from 29% of total deposits at the end of 1985 to 80 percent on October 31, 1990 (see Table 5). This fact and the short term nature of time deposits - almost 90% 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 the economy recovers and public confidence in the financial system returns.

1/ 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.

E. Net 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 6). 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, as a result of a $188 million repayment of arrears by Argentina. 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. In 1987, net international reserves declined as a consequence of Argentina's failure to pay for Bolivia's natural gas exports, thereby running up Argentina's arrears. In 1988, net international reserves declined by $28 million (Table 6) mainly as a result of a $40 million increase of arrears by Argentina. During most of 1989, the two US owned petroleum companies, Tesoro and Occidental, 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). These drawdowns reduced Bolivia's net international reserves by the same amount. 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 were only about $19 million as of December 31, 1989 (Table 6).

After declining by $142 million in 1989 - to a level of only $19 million - the Central Bank's net international reserves recovered to $44 million in June, 1990, and to $135.6 million on October 31, 1990. They may end the year at $150 to $160 million. The main reason for this significant recovery of Bolivia's international reserve position this year is the Central Bank's policy of selling Certificates of Deposit (CDs) at very attractive interest rates (15 to 17%), which attracted a considerable amount of dollars as well as bolivianos with a "maintenance of value" clause (which means that repayment is tied to the value of the dollar in the foreign exchange auction market). If we analyze the composition of the Central Bank's international reserves as of October 31, 1990, we find that out of the $135.6 million in net international reserves at that time, $84.3 million consisted of CDs denominated in dollars, while another $51.7 million consisted of dollar-denominated assets that are not readily convertible in hard currency (as, for example, Bolivia's countertrade credits with Argentina and claims on the Fondo de Integración y Desarrollo which can be used for projects only). In fact, all of the country's net international reserves (as of October 31, 1990) are either matched by Central Bank short-term obligations or do not actually consist of dollars or other hard currency reserves (see Table 6-A).

F. Fiscal Deficit of the Consolidated Non-Financial 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 public sector was approximately 9,570 billion pesos bolivianos, or 7.8% of GDP, of which 32% was financed by domestic credit (See Table 7). The period of hyperinflation (1982-1985) 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 (see Table 7). This deficit was 89% internally financed as a result of international community reluctance to disburse significant amounts to a country in such a chaotic situation. In 1985, the fiscal deficit was reduced to 10.8% of GDP, as a result of the implementation of the New Economic Policy initiated in the last quarter. Still, about 55% of this deficit had to be financed with internal credit. In 1986, the fiscal situation improved dramatically. The deficit was reduced to only 3% of GDP (Table 7), totally financed with external resources. However, in 1987, estimates show an increase of the deficit to 8.2% of the GDP, owing mainly to the unexpected failure by Argentina to pay for Bolivian gas exports (2.5% of GDP) and payment of the remaining separation payments to the 23,000 dismissed COMIBOL miners (2% of the GDP). Internal financing covered 68% of this deficit. In 1988, the deficit declined to 6.4% of GDP, 30% financed with internal funds. In 1989, the fiscal deficit was reduced further to 5.4% of GDP, but internal financing increased to 63% of the total deficit. Based on the performance of the first three quarters of the year, the 1990 projected budget shows a further reduction of the fiscal deficit to only 2.9% of GDP. However, the Minister of Finance has recently stated to the press that the public sector deficit for 1990 would be slightly higher.

The projected reduction of the fiscal deficit in 1990 is mainly the result of a decline in public investment and an increase in public savings. As seen in Table 8, capital expenditures for 1990 are estimated to decline by 13% in nominal terms, and 25% in real terms from the 1989 level. While public investment in 1989 was 8.3% of GDP, it is estimated to decline to 7.3% of GDP in 1990. Similarly, public savings during 1990 are expected to follow the increasing trend, from Bs 79 million in 1988 to Bs 111 million in 1989 and Bs 227 million in 1990 (in constant 1988 bolivianos), for increases of 40% and 104%, respectively, in real terms, during the two-year period (Table 8).

Public sector finances have been improving slowly, though not sufficiently, and still suffer from serious structural problems. While total revenues increased by 16.7%, in real terms, during the 1988-1990 period, this was due mainly to increases in the income of the state enterprises (including ENTEL and YPFB). Tax revenues, the most genuine and desirable source of income, particularly for the Central Government, increased by only 10.2%, in real terms, during the two-year period, still lower than the amounts planned for both years. On the other hand, total expenditures realized a small increase of 1.9% (in real terms also) during the two year period owing mainly to a decline in public investment. Specifically, while current expenditures increased by 9.2% during the 1988-1990 period, public investment declined by 21% in real terms.

G. The Current Fiscal Situation of the Central Government

In spite of the general improvement in the current account of the consolidated public sector as a whole, the Central Government still faces a serious structural problem: Its current revenues are simply not large enough to cover its essential current expenditures. For example, in 1989, the revenues required to cover budgeted expenditures (other than investment expenditures financed by foreign donors) were, in round figures, Bs 1,800 million; the budget actually executed totalled Bs 1,650 million; while actual revenues collected were only Bs 1,450 million, thus falling short by Bs 200 million of the executed budget and by Bs 350 million of the amount programmed. The actual deficit of Bs 200 million was covered through Central Bank credit (Bs 100 million) and through unpaid expenditures (carried over to 1990) of Bs 100 million.

In fact, the Central Government's total current revenues are just sufficient 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 practically nothing left over for government administrative expenses (other than salaries of direct hire personnel), which means that there is nothing left over for the 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.

The problem is due only in part to Argentina's delays in effecting payment for natural gas deliveries. As of November, 1990, Argentina was four months behind in making payments (the agreement between Bolivia and Argentina allowed for a maximum delay of three months). This is significant as it accounts for an important proportion (some 20%) of total Central Government current revenue collections.

The Ministry of Finance admits that Argentina's delay in making payments by no means constitutes the sum total of its fiscal problem. Other aspects of the problem include the poor state of tax administration, the exemption of a significant proportion of the population from application of the value added tax (particularly small vendors and the sale of all contraband imports, which is quite significant in Bolivia), and on the expenditure side, a substantially bloated public payroll. Ministry of Finance officials are well aware of the need to adopt corrective measures, including improvement of tax administration, removing the exemption of small vendors from the value added tax, a significant reduction in the number of public servants, and the privatization of a number of state enterprises. While technicians agree on the need for these changes, their implementation will run into strong popular opposition and will be very difficult to carry out. In this regard, the recently passed SAFCO law should begin to have a positive impact in the areas of tax collection and budget administration.

In conclusion: The Paz Zamora government has succeeded in maintaining relative price, monetary and exchange rate stability. As stated in his speech to the Nation of August 6, 1990, reporting on the achievements of his Government during his first year in power, major emphasis was placed on the continued implementation of the stabilization program, on restoring private sector confidence and on stimulating the growth of non-traditional exports.

The economy is still in a vulnerable situation as a result of a number of factors, including: 1) failure to improve the tax collection apparatus; 2) the government's inability, so far, to restore public confidence sufficiently to induce resumption of substantial private investment; 3) high interest rates; and 4) the continued slow upward creep of the price level and of the exchange rate that impede the restoration of full confidence in the stability of the boliviano. Among the more medium and long term factors that impede the consolidation of economic stability and the resumption of growth are: 1) the undiversified nature of the economy, particularly the export sector, which is still strongly dependent on foreign exchange earnings from natural gas sold to a single customer country (Argentina) that is itself in serious economic difficulties; 2) the decline of coca as a major earner of foreign exchange through the successful disruption of that industry by means of more effective interdiction efforts and depressed prices of coca leaf, paste and base; 3) the decline in the real income of public employees since 1982 as a result of hyperinflation and the failure of public sector salaries to keep pace; and 4) the presence of well organized and militant unions able to organize strikes and mass demonstrations to press for substantial salary increases (which the government has been able to resist so far).

V. ECONOMIC REACTIVATION

The reactivation of the Bolivian economy is currently the major task that confronts the Bolivian authorities. Although the economy has reversed its declining trend beginning in 1987 and growth has resumed, it has not proved sufficient to permit the recovery of real per capita GDP, which declined by some 26% over 1981-86.

In July, 1987, the GOB issued Decree No. 21660, commonly known as the Economic Reactivation Decree.2/ This decree was designed to play a key role in putting an end to the prolonged recession that the Bolivian economy has been suffering for about five years. A substantial portion of the decree addresses the main prevailing weaknesses of the Bolivian banking system. A development credit line was established in the Central Bank to be channelled by the intermediate credit institutions (ICIs). To promote exports, the decree instituted the Certificado de Reintegro Arancelario (CRA) which is intended to take the place of a waiver on import duties on imported goods used in producing the exported products. It created free zones and provided a preferential railroad tariff rate for Bolivian exports.

In January, 1990, The Paz Zamora government issued a decree (Decree No. 22407) which confirmed the priority given to the maintenance of economic stability, provided some incentives to spur economic growth, particularly exports, and addressed some social issues.3/ The decree provides that fiscal, monetary and exchange rate policies would be properly coordinated to maintain stability and confidence in the economy. The decree includes a series of measures to guarantee domestic as well as foreign investments. It encourages joint ventures among 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 zones and 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 improve the efficiency and control of customs.

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

Economic reactivation is still being hampered by the financial system's inability to channel credit to productive enterprises on appropriate terms (with respect to interest rates, collateral requirements and length of time period), the persisting lack of private sector confidence, the slowness of the GOB Congress to adopt measures designed to stimulate private investment through most of 1990, and to address some remaining structural problems.

A. Investment

Total investment, as measured by gross capital formation, declined much faster than GDP during 1981-86. Economic and political instability were clearly the main causes of this deterioration. Gross capital formation in real terms declined by 42% from 1980 to 1986. In 1988, gross capital formation increased to only 10% of GDP (compared with 18% over 1975-79) still too low to support recovery and growth.

According to the consolidated national budget, public investment in 1987 was only $250.7 million, or 6.5% of GDP, much lower than the planned investment of $572.3 million, or 14.1% of GDP, for that year. In 1988, figures in the national budget show an increase in public investment to $362 million, or 8.1% of GDP. In 1989, investment in relation to GDP increased to 8.3%, or $385 million.4/

The GOB proposed a public investment program of $470 million for 1990, or 10.9% of GDP. This program includes on-going projects as well as those ready for implementation, largely with identified sources of financing. This is essentially the pipeline of projects inherited from previous years. This program was one third larger than the executed public investment plan of 1989. However, preliminary official estimates indicate that during 1990 public investment was $362 million, or about 8.0% of GDP.

The contribution of the private sector to investment is crucial to the achievement of the projected growth rates. However, as a combined result of 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 - failed to exhibit a significant recovery. According to available estimates, private investment for 1988 and 1989 was running at approximately $300 million a year, while during 1990, it is estimated that it declined to about $230 million.

4/ Percentage figures are derived from the consolidated national budget (See Table 7). Dollar figures are calculated by multiplying the actual amounts in bolivianos from the budget by the official average exchange rate for each particular year.

Economic reactivation, therefore, is heavily dependent on public investment, which also has been insufficient so far. The public sector still does not generate sufficient savings to provide the necessary counterpart to foreign disbursements. In addition, the public sector has not yet improved its administrative and technical capacity sufficiently to enable it to absorb larger amounts of external disbursements. As a result, public investment is still below the amount required to accelerate economic growth.

To improve the domestic investment climate, the GOB has submitted to Congress for approval codes on mining and investment, and a hydrocarbons law, which offer attractive incentives to encourage domestic and foreign investment. The investment code has been passed. It is one of the most liberal adopted by developing countries, 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 to national investors. The hydrocarbon law also has been passed by Congress, though implementation has been delayed owing to a court challenge on a technicality. The Mining Code has also been passed by both houses of Congress, though final adoption is not expected until January, 1991, when a disagreement between the House and Senate on the taxation issue is to be resolved through a joint session of Congress. All three pieces of legislation are expected to be operative early in 1991, and to contribute significantly to the improvement of the investment climate in the private sector. Furthermore, the GOB is moving toward the privatization of several state-owned enterprises.

B. Exports

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 29% in 1987, and 6% in 1988. (This trend is likely to be reversed in the second semester of 1990 as a result of the Gulf crisis). Finally, the unit prices of a whole range of minor exports declined over 1981-1986, including the prices of tungsten, lead, zinc, soybeans, coffee and timber.

As a result of these factors, the total value of Bolivia's registered exports plunged from $942 million in 1980 to $473 million in 1987, a decline of 50% (see Table 13). In 1988, the declining trend was reversed as exports of goods rose back to $542 million, and to $723 million in 1989. Preliminary information, based on performance during the first three quarters of 1990, projects an increase in merchandise exports to $805 million this year, still significantly below the level of 1980-81 (even in terms of current dollars - see Table 13).

Given Bolivia's dependence on natural gas and the depressed state of the tin mining export industry, it is important to diversify the export sector for which non-traditional products offer the best prospects. Non-traditional exports are expected to increase for the fifth consecutive year, from only $38 million in 1985 to an estimated $240 million in 1990, representing more than a 500% increase (see Table 9). This level of performance exceeds the previous 1980 peak of $163 million by 47%. 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.

C. Gross Domestic Product

According to the GOB, preliminary indicators suggest positive rates of real GDP growth rates in 1987, 1988 and 1989 of 2.1%, 2.8% and 2.4%, respectively (see Table 10). Since the downward growth trend was reversed in 1987, almost all sectors of the economy have expanded. The rates of growth for the three-year 1986-1989 period 5/ of the most rapidly growing sectors were: mining (+81%), construction (+19%), manufacturing (+11%), hydrocarbons (+9%), and transportation and communications (+8%). The agricultural sector is the only major sector that declined by -2.6% (see Table 10). However, the overall increase in real GDP represents no improvement in real per capita income, since population increased at approximately the same rate.

The GOB projected a 3% growth rate for 1990 although latest official estimates indicate a 2.6% GDP growth rate for the year. The major sectors expected to contribute to that growth include mining (9.8%), hydrocarbons (7.1%), construction (6.9%), electricity and water (6%) and manufacturing (3.9%). Agriculture, the largest sector of the economy, is estimated to decline by 1.6%, owing mainly to the drought experienced during the latter part of 1989 and the first quarter of 1990.

In conclusion: The pace of economic reactivation is still slow. Recovery has been impeded by a number of factors, including (1) the continued extreme shortage of working capital and credit (except at very high interest rates, on very short term (30 to 90 days) and involving very high collateral); (2) the declining price of natural gas that affects both the fiscal and balance of payments situation; (3) delays by Congress to pass relevant "economic laws" such as the hydrocarbons law and the mining code; and (4) a persisting lack of investor confidence fanned by infighting among the political parties and the private sector's perception that the coalition government has not been able to pursue a consistent set of supportive policies.

5/ With 1986 used as the base year.

VI. EXTERNAL DEBT

Bolivia suffers from one of the largest debt service burdens in Latin America resulting in great pressure on both the GOB budget and the balance of payments. Bolivia has no alternative but to press for relief through debt renegotiation. Paris Club I (held in June 1986) and Paris Club II (held in November, 1988) have 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 III) in mid-March 1990. The public debt to the commercial banks was partly resolved unilaterally by the GOB, scaling it down to 11 cents on the dollar (the discounted market value), and without recognizing accrued interest.

A. Debt Service

On August 31, 1989, Bolivia reduced considerably 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 June 30, 1990, totalled $3.46 billion (see table 11). Note that it is about equally divided ($1.5 billion to each) between debt owed to multilateral and bilateral donors. According to the Central Bank, Bolivia's official debt owed to the USG is $368 million.

Note that even after rescheduling, i.e. just focusing on the interest and amortization payments that were made or must be made (mostly to the multilateral agencies), Bolivia must still come up with very substantial sums: $263 million in 1990 and $304 million for 1991 (see Table 12). To put these debt service obligations into perspective, note that the "Total Debt Service to be Paid" ($263 million in 1990 and $304 million in 1991) constitutes 29% and 33% respectively of total projected legitimate export earnings in these years, a heavy burden on the country's foreign exchange resources.

B. Debt Rescheduling

Since 1985, the GOB's debt strategy has been to keep reasonably current on its debt to multilateral entities and to reschedule or renegotiate official bilateral and commercial debt.

Regarding the multilateral debt situation, Bolivia has largely maintained payments following promulgation of the New Economic Policy. Total disbursements have increased continuously, and these payments have been facilitated through positive net transfers from the multilateral agencies. Bolivia's outstanding debt to the multilateral agencies as of June 30, 1990, was $1.54 billion, or 44% of its total outstanding debt (see Table 11). Debt service charges to the multilateral agencies alone came to $193 million in 1989.

To date, the major concessions have come from official bilateral creditors. In June, 1986, Bolivia's creditors in the Paris Club agreed to a rescheduling of some $450 million of Bolivia's bilateral debt service, a package which included postponement of interest payments and rescheduling of all amortizations and arrears. The terms obtained in the Paris 1986 debt renegotiations were very favorable to Bolivia as they provided for the capitalization of all interest payments on both arrears and current maturities falling due through June 30, 1987. A five-year grace period was granted on all amortization of principal.

At the Paris Club II negotiations of November, 1988, some $400 million falling due between July 1987 and December 1989 were rescheduled on terms similar to the previous Paris I session. Moreover, debt service payments already renegotiated under the Paris I agreement were also rescheduled.

At the Paris Club III meetings held in March of 1990, Bolivia renegotiated $284 million, or about 17% of its $1.67 billion bilateral debt, falling due during the period January 1, 1990, to December 31, 1991. Bolivia has asked for - and was granted - the very concessionary "Toronto Debt Relief Terms" extended heretofore only to the sub-Saharan countries. They involved three alternatives, including reduction of debt service payments, extension of the maturity period or reduction of interest rates. The creditor countries chose different alternatives. The United States chose to reschedule Bolivia's debt falling due to twenty-five years with a fourteen-year grace period.

In addition, Bolivia may be able to obtain partial forgiveness of its bilateral debt to the US under President Bush's Initiative for the Americas. According to the Central Bank, this debt amounted to $368 million as of June 30, 1990 (Table 11).

Argentina was Bolivia's most important bilateral creditor. In September, 1987, Bolivia's outstanding medium and long term debt to Argentina of approximately $689 million, was rescheduled outside the Paris I session as part of an overall agreement that also dealt with Bolivia's gas exports. In August, 1989, both countries cancelled their debts to each other. While Bolivia owed Argentina $689 million in medium - and long-term debt plus $106 million in short term debt, Argentina owed Bolivia about $313 million for unpaid gas imports. Although Bolivia has traded cancellation of current for capital debt, it has reduced its total outstanding debt by about 20%, and cut back its annual debt service payments by $55 million.

Bolivia's public bilateral debt (to official donors) outstanding as of June 30, 1990, was $1.58 billion, or 46% of its total debt outstanding (see Table 11).

Commercial debt has not been serviced since 1984 and the country has not attracted any new commercial bank loans since then. The GOB's debt buy-back proposal calls for Bolivia to buy back its debt at 11 cents of face value from foreign commercial banks, without recognizing any interest accrued, using funds donated specifically for this purpose by donor governments. To date, Bolivia has repurchased about two thirds of its total commercial debt with a face value of about $670 million. The remaining $226 million is expected to be repurchased during 1991. AID may contribute up to $6 million under the FY-90 BOP for this purpose.

In addition to its debt reduction with commercial banks, official creditors and multilateral agencies, Bolivia has reduced its debt to the two foreign oil companies, Tesoro and Occidental, from some $160 million in 1987 to about $18 million as of June, 1990.

VII. BALANCE OF PAYMENTS

The evolution of Bolivia's balance of payments during the period 1980-89, with projections for 1990 and 1991, is presented in Table 13. We shall first discuss major trends over 1980-90, then analyze the Central Bank's projections for 1991.

A. Trends Over 1980-90

1. Merchandise Trade: Exports declined by more than 23% (in current dollars) between 1980 and 1989, from $942 million to only $723 million. (The decline would be much greater if measured in constant dollars). In 1990, exports are expected to increase slightly to $805 million, still 15% below the 1980 level (Table 13). This drastic decline over eleven years is due mostly to sharp drops in tin and natural gas prices. Although exports of non-traditional products suffered also, particularly during 1983-85, they recuperated to record levels in 1989 and 1990 (See Table 9), increasing by 80% and 17%, respectively, in these two years. Imports declined sharply between 1980 and 1984 (by 27%), recovered to $776 million in 1987, then declined again over 1988-90. In 1990, legal (registered) imports are only some 7.6% (in current dollars) above the 1980 level, which means a sharp reduction in real terms.

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 $277 million in 1989 (Line I-3-ii of Table 13).

3. International donor loan disbursements declined from $265 million in 1980 to less than $100 million in 1983, but have risen back to $334 million in 1989 to surpass the 1980 level by about 26% as a result of stepped up donor assistance. However, disbursements are projected to decline to $295 million in 1990 as a result of some implementation problems (Line II-B-i of Table 13).

4. The sum of "errors and omissions" and "net short-term capital" include earnings from the informal sector, consisting mostly of earnings from coca exports that found their way into the banking system or resulted in legitimate imports, as well as smuggled imports (through 1989). (For 1990-91, the smuggled imports were listed as a separate line item under "imports").

5. The overall balance of payments (on line IV) showed a substantial deficit every year over 1980-89, though the amounts vary considerably from year to year. For the first time in 1990, the overall balance of the current account plus capital transactions is projected to be a positive $16.0 million, compared with an overall annual deficit ranging between $185 million and $367 million over 1986-89. Main reasons for the improvement are:

(a) An $82 million increase in export earnings in 1990, mostly attributable to minerals and non-traditional products.

(b) A significant turnaround in "errors and omissions" (from a negative $194 million in 1989 to a positive $16 million in 1990), possibly reflecting (a) capital repatriation (largely motivated by the high interest payments offered by the central bank on its CDs), (b) a substantial improvement of payments by Argentina for Bolivia's gas deliveries, (c) the fact that some extraordinary debt repayments effected in 1989 (to the Tesoro and Occidental petroleum companies) did not recur in 1990, and (d) the transfer of smuggled imports from "errors and omissions" in 1989 to a separate line item under imports in 1990.

6. Following a cumulative drawdown of $262 million in net international reserves over 1987-89, an increase of $154 million is projected for 1990 (Table 13, Line IV - B). This is the outcome of the factors mentioned under Section IV. E. above, as well as of a $52 million increase in "extraordinary financing" resulting from the latest round of debt rescheduling.

B. 1991 Projections

The Mission's 1991 Balance of Payments projection based on Bolivia's Central Bank data is also presented in Table 13. Note the following:

- Exports are expected to experience a small increase of 2%. For 1991, mineral and petroleum prices are projected to remain more or less unchanged, whereas non-traditional exports are expected to increase at a much lesser rate (of only 8-10%) after the unexpected upsurge of 1989-90. Imports (both legal and smuggled) are projected to increase by about 14% to support the expected rate of growth of the economy and allow for the world inflation rate.

The current account is expected to deteriorate in relation to 1990 owing mainly to the expected increase in the trade deficit.

The total capital account (line II) is expected to remain at approximately the same level as in 1990.

The overall balance of payments deficit for 1991 is projected at $161 million, in lieu of a $16 million surplus estimated for 1990 (line IV of Table 13).

The small projected gain in Net International Reserves in 1991 of about $3 million (line IV-C) allows for the fact that about $164 million in debt servicing will not need to be paid owing to rescheduling. This decline in debt service charges is projected to materialize without our ESF balance of payments assistance.

It should certainly not be inferred from the $3.1 million increase in net international reserves projected for 1991 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 in the central bank's net international reserves to $135.6 million as of October 31, 1990, 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 Bolivia's residents, not to foreign creditors. Still, these CD obligations are vulnerable as the market is highly dependent on the confidence factor. The CD policy is also very costly to the central bank. Total CDs outstanding amounted to $84.3 million as of October 31. In addition, some $51.7 million of the country's recorded net international reserves consist of countertrade retention credits in Argentina (usable only to import Argentinian goods) and of a credit account with the Fondo de Integraciôn y Desarrollo, which must be spent for approved binational investment projects. Both do not represent foreign exchange that can be drawn upon in an emergency. If these two items are deducted from the net international reserves of $135.6 million registered at the end of October, we are left with a figure of zero (See Table 6A for a breakdown of international reserves). Hopefully, reserves will increase by some $20 million between October 30 and December 31, 1990.

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 $210 million. This amount was obtained by considering only the level of legitimate imports projected for 1991 ($836 million), abstracting from the $155 million in smuggled imports projected for that year. Thus, a substantial additional build-up in the reserve level is considered most desirable, especially if it is considered that some 62% of the country's net international reserves were obtained through the policy of selling short-term CDs to residents, and that some 38% of net reserves are tied and non-liquid (See Table 6A). The freeing of the country's current net international reserves from dependence on short-term CDs sold to the public at very high interest rates is an urgent requirement.

3. The projected increase in net international reserves of $3.1 million in 1991 assumes a $164 million in debt rescheduling. Without such rescheduling, the level of net international reserves would have declined substantially.

4. The balance of payments projection for 1991 in Table 13 makes allowance only for the increase in imports associated with GDP growth (i.e. an increase in imports of 14% in current dollars or about 8% 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 might be twofold: a direct effect resulting from increases in the demand for imported seeds, agrochemicals, 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.

The detailed methodology underlying the projections, as well as the sources of data, are presented in the footnotes to Table 13.

VIII. MAJOR REMAINING PROBLEMS AND GOB PRIORITIES

Bolivia's major economic and social difficulties are of a medium to long term nature. Thus, solving these problems will require some time. Among the major remaining problems that impede a faster economic recovery are the need to improve the public sector's fiscal situation, restructure the economy, reduce the substantial disequilibrium in the balance of payments, alleviate unemployment and under-employment and renegotiate the external debt.

1. Improvement of Public Finance: Although significant improvement was realized since the hyperinflation years, public finances are still very fragile. The Central Government needs to increase its efforts at collecting more revenue, basically through expansion of the tax base and improvement of tax administration, and cut its current expenditures through restructuring and reduction of the public sector payroll. At the same time, salaries of remaining public servants must be raised. Currently, revenue collections are barely sufficient to cover current expenditures, let alone finance any public investment through public saving.

2. 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 a new government belonging to an opposition party. This generates considerable delays and inefficiencies in project preparation and implementation, as well as in other sectors.

3. Restructuring the Economy: Some restructuring of the economy appears essential if the country is to be able to step up GDP growth and make progress in reducing its balance of payments disequilibrium. Work is needed in strengthening export and investment incentives for the private sector. Specifically:

Diversification: Exports need to be expanded and diversified through provision of pre-embarkation and production credit for non-traditional exports, exemption of export products from sales and import taxes on inputs, technical assistance to producers, streamlined bureaucratic procedures that interfere with incentives to export, and provision of other incentives.

Foreign investment needs to be promoted through improved incentives. The recent adoption of the liberal investment code should help. So would the removal of the remaining hurdles in the way of implementation of the mining code and the hydrocarbon law.

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 is an acute shortage of credit, particularly for medium and long term investment purposes. There is need to improve the banking system's efficiency to promote higher levels of capacity utilization and investment if reactivation is to take place.

Improve and expand the transportation system: Public sector investment will have to play a critical 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 transport costs that discourage export-oriented activities, especially in the agricultural sector.

4. Reduce the sub[illegible]tial disequilibrium in the balance of payments: Throughout the [illegible]st decade, the balance of payments was in substantial deficit requiring a continuing stream of external funds to forestall economic crises. Bolivia incurred arrears and/or refinanced its debt every single year.

5. Deal with the country's chronic unemployment and under-employment problem: This problem has 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. There is no solution in sight. The long-term outlook is rendered more dismal by the high (2.2% to 2.6%) rate of population growth and GOB resistance to the adoption of an official population policy that encourages family planning.

6. Renegotiation of Bolivia's public sector debt: Bolivia has "repurchased" most of its commercial debt. Its debt with bilateral donor governments [illegible] mostly South American governments and Paris Club members - is be[illegible] renegotiated at successive Paris Club meetings and bilaterally. [illegible]er, the debt to the multilateral agencies cannot be handlec [illegible]ily as such debt is not renegotiable. The balance [illegible]ments analysis presented above clearly shows that Bolivia [illegible]e unable to service its debt to both bilateral donors and the mu[illegible]eral credit organizations. President Bush's Enterprise for the Americas proposal calling for substantial bilateral debt reduction for Latin American countries that have adopted strong economic reform programs would provide welcome relief. Bolivia's outstanding official bilateral debt to the United States, according to the Central Bank, now stands at $368 million; unfortunately, most of Bolivia's outstanding official debt is to the multilateral agencies (which cannot be rescheduled) and to other bilateral donors (See Table 11).

IX. ERADICATION AND ALTERNATIVE DEVELOPMENT

The strategic objective of our narcotics strategy is the orderly reduction and eventual elimination of cocaine exports from Bolivia to the United States and other major consuming countries. AID's objective is to cushion the adverse impact on the Bolivian economy of the gradual elimination of cocaine exports, thus making this goal politically feasible, through a comprehensive alternative development program. (For a detailed description of the Mission's alternative development strategy, see Annex A).

We shall first discuss the progress achieved by the eradication and law enforcement ("interdiction") program; then summarize the main elements of our alternative development strategy.

A. Eradication and Law Enforcement ("Interdiction")

The USG's anti-narcotics strategy in Bolivia has undergone considerable evolution since the late 1970's when efforts were limited to coca eradication only. Eradication still remains a high priority for the USG, as exemplified in the proposed conditions precedent for disbursement of FY 1991 ESF funds outlined in Section XIII. The success of anti-narcotics also depends on strong GOB political commitment to effective interdiction in order to keep coca prices below the cost of production.

Progress in the area of interdiction and eradication to date will be discussed under two distinct headings: before October, 1989, and after that date. The price of coca leaf in the Chapare reached a peak of $90 per 100 pound bag in August of 1989, the month in which Colombian presidential candidate Galân was assassinated by the members of a narco cartel. The strong reaction by the government of Colombia to this event caused a substantial disruption in the demand for Bolivian coca leaf, with the price plummeting to $57 per 100 pound bag in September, $33 in October and November, and to a range of only $10 to $12 during February-April of 1990. This was followed by a gradual recovery to about $17 per load in May, $28 in June and $34 in July, 1990. Subsequently, the price declined again to $21 in November, with a further decline recorded in December.

Eradication, which was very slow prior to the last quarter of 1989, experienced a sharp upsurge thereafter. It is estimated that only some 3,500 hectares were eradicated and substituted for other crops between 1985 and June of 1989, suggesting an average rate of only about 83 hectares per month. By contrast, the average monthly eradication rate was 209 hectares in all of 1989, and rose to nearly 800 hectares during the first six months of 1990. The amount eradicated between January 1 and November 30, 1990, was 7,239 hectares of standing coca and is projected at about 7,800 for all of 1990, an amount that greatly exceeds the target set by the GOB for the year. (See Table 15 for data on progress on eradication).

A major factor behind the recent increase in the eradication rate is the sharp decline in the price of coca leaf, resulting in a severe profit squeeze for coca growers. While the Colombian crackdown proved to be the triggering factor precipitating the price decline, it clearly is not the only factor at work. A second factor is the interdiction program in Bolivia which has been much more effective during 1990 than it has been in the past. A third significant factor is the gradual increase in coca production in the whole Andean region over a number of years in response to the high profitability of the crop through the first three quarters of 1989.

The interdiction or law enforcement operations contributed to the profit squeeze on coca growers by interfering with the operation of buyers and processors, thereby depressing the demand for their product. The growing success of the interdiction force is evidenced by the destruction of 24 cocaine hydrochloride production laboratories in 1989 plus at least another 26 (hydrochloride and base) labs during the first eleven months of 1990. Large amounts of cocaine and precursor chemicals in both 1989 and 1990 were also destroyed. In addition, 16 aircraft and 42 vehicles involved in narcotics trafficking were seized in 1989, while another 30 vehicles and 20 aircraft were seized during the first eleven months of 1990. Finally, several notorious narcotraffickers were arrested including Luis Arce Gomez and Herlan Echevarría (both turned over to the United States for trial), and Jorge Roca Suarez (arrested in the US on evidence and witnesses provided by the Bolivian authorities).

In September 1990, a coordinated enforcement operation eliminated an organization headed by the noted narcotrafficker Carmelo Dominguez, which included his arrest and that of his closest associates, seizure of records and assets, including $300,000 in cash, 9 aircraft, real estate and front businesses, and destruction of the organization's cocaine laboratories. Intensified enforcement efforts against wholesale coca paste buyers in the Chapare coca production regions throughout 1990 culminated in a coordinated enforcement operation in November to establish a long-planned permanent police presence in the northwest Chapare area. This latter operation was initiated at the suggestion of the Bolivian police commander in the Chapare. These activities support the conclusion that the counternarcotics policy and programs of the government of President Paz Zamora converge increasingly with those of the United States.

<u>In sum</u>: There has been a major turnaround in Bolivia's coca growing industry (from rapid growth through the fall of 1989 to decline thereafter) and in the attitude of the Bolivian government toward the industry. This conclusion is aptly summarized in cable LA PAZ 17616, as follows:

> "In the early to mid-1980's, growing demand for cocaine in the United States and other markets, unstable economic conditions in Bolivia, and GOB reluctance to take action against illegal drug trafficking, combined to cause a "coca boom" that vastly expanded numbers of growers and areas under coca cultivation, largely in the Chapare. This resulted in growing supplies of coca leaf from plants reaching maturity about two years after planting. Return of civilian democratic government, economic reforms that brought stability (if not growth), and increasingly effective counternarcotics law enforcement, in Bolivia and elsewhere (particularly Colombia), combined with large leaf supplies to deprive growers of the high profits

enjoyed by those growing coca earlier in the decade. The protracted depressed farmgate coca leaf prices that characterized 1990 fueled record voluntary eradication, and appeared at the end of the year to be leading to departure of non-landowing labor from the Chapare coca sector".

(For fuller information on the issue of eradication and interdiction, see LA PAZ 17616 which discusses this matter in considerable detail).

The Mission plans to continue and further augment the campaign to enforce the laws prohibiting the production of, and trafficking in, refined cocaine products. The effectiveness of this effort will be measured by the continued seizure or destruction by Bolivian law enforcement forces of substantial amounts of refined cocaine products or chemicals used in their production, the seizure or destruction of physical facilities and assets, airplanes or vehicles used in the production or distribution of cocaine, the arrest and incarceration or extradition of large-scale cocaine traffickers, and compliance with the target of the Coca and Controlled Substances Law. In addition, we expect continued vigorous enforcement of prohibitions against cultivation of coca in areas not permitted by law and against the development of coca seed-beds. We will also use our best efforts to promote the conclusion at an early date of a treaty for the extradition of criminals, including drug traffickers.

B. <u>Alternative Development</u>

Our current alternative development strategy (described in detail in Annex A) responds to the broader concept of alternative development, which we define as the progressive transformation of the Bolivian economy from reliance on coca to a diversified, sustainable and growing economy that does not depend on coca. This expanded definition of alternative development alters significantly the role of U.S. economic assistance to Bolivia. A successful long-term anti-narcotics strategy must involve major emphasis on the economic aspect, with eradication and interdiction playing essential supportive roles. This is fully recognized by the GOB. At the annual aid donor meeting in Paris in November, the GOB introduced its Alternative Development Strategy (endorsed by the United States) stating that it was premised upon effective law enforcement as the essential precondition for success of the alternative development and coca eradication program. Increased resources, in particular balance of payments support, will be required to replace the illicit portion of Bolivia's economy, which represents an estimated 6 to 10 percent of the legitimate Gross Domestic Product.

The combined package of ESF and other USAID-supported development projects is designed to accomplish the following alternative development objectives: (1) compensate for foreign exchange losses, (2) assist the GOB in maintaining its economic stabilization program and promote economic reactivation, (3) generate income, exports and employment, (4) increase incentives for private sector investment, and (5) support the GOB in its narcotics awareness and prevention efforts. The program will be financed, beginning in FY 1991, primarily with ESF funds (NSD-18) provided under the Bennett Plan. In addition to $66.0 million proposed in this document, a substantial amount of both ESF and DA funds will be obligated in FY 1991 for new and amended projects broadly supporting alternative development.

The range of target groups for USG assistance has also been expanded to address the primary objectives described above. In addition to former coca growers and laborers, the programs will aim at relieving the foreign exchange constraint and the severe unemployment and under-employment problem. Incentives will also be given to attract domestic entrepreneurs and international investors, with emphasis on increasing Bolivian exports of non-traditional products.

Our strategy calls for continued agricultural research, extension, credit and marketing activities in the Chapare and adjacent high valleys. Social and productive infrastructure will be expanded in order to make these regions economically attractive for coca growers as eradication and interdiction measures proceed. However, due to geoclimatic and economic limitations of the Chapare and high valley areas, we believe that an effective alternative development program must go beyond these regions. Therefore, program assistance will branch out into other regions of the country. In pursuit of the above listed objectives, alternative development projects will be initiated in the Cochabamba Central Valley, Santa Cruz, La Paz, Oruro, Potosí and Chuquisaca.

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

Crop Substitution
(in hectares)

1985	164
1986	512
1987	630
1988	1,064
1989	2,389 6/
Jan.- Nov. 1990	2,495 7/
TOTAL	7,254

Sources: IBTA/Chapare and PL-480 (for the Credit Program)

Note that 82 percent of the acreage shifted to alternative crops under our programs occurred during 1988-1990.

Over the past year, the GOB has been developing its alternative development strategy and implementation plan. Specifically, the GOB's alternative development program involves a joint commitment by Bolivia and the international community to eradicate the coca that is produced and processed for export over a period of six years, and to replace the coca economy by one that is "more solid, stable and diversified, capable of generating employment and promoting economic and social development."

Alternative Development documents prepared by the GOB and presented to the Consultative Group meeting in Paris last November constitute a commitment to the development of a sound strategy and subsequent implementation. At recent meetings of USAID and GOB representatives, there was broad agreement with regard to the general objectives of an alternative development strategy, and the main elements that such a strategy should encompass.

6/ Source: 888.65 hectares under IBTA and an estimated 1,500 hectares under the PL-480 Credit Program.

7/ Source: 700 hectares under IBTA and an estimated 1,795 hectares under the PL-480 Credit Program.

The GOB plan relies heavily on foreign donor assistance. One of its principal objectives is to develop an alternative development program which mobilizes and coordinates the resources of the international community. We intend to continue working with the GOB in coordinating its alternative development activities with the donor community.

X. OTHER DONOR BALANCE OF PAYMENTS ASSISTANCE

Contributions to balance of payments support by 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 in the amount of SDR 136.05 million in July, 1988, of which the first tranche was disbursed in August, 1988. Additionally, the IMF approved a purchase of SDR 45.3 million under the Compensatory Financing Facility. Full use of the authorized agreements would increase Fund credit to Bolivia to SDR 218.05 million at the end of the program period in March, 1991.

An IMF Team visited La Paz in late June through mid-July 1989, to set new benchmarks and performance criteria for the second year of the ESAF and evaluated GOB performance to date. The GOB was found to be in full compliance with the performance criteria set for September and December of 1988, but experienced problems with the benchmarks of March and June 1989, with respect to credit expansion to both the non-financial public and private sectors as well as with net international reserves. The performance criteria set by the team for the second year of the ESAF (July 1, 1989 through June 30, 1990) were based on the optimistic assumption that Argentina would resume payments at least for current gas deliveries in July of this year (payments were in fact resumed in August).

An IMF team arrived in Bolivia for a three-week visit in mid-June, 1990. It found that, while some of the March 31 IMF performance targets had not been met (including those relating to the net domestic assets of the Central Bank, net international reserves, and credit to the non-financial public sector), there were extenuating circumstances, including some beyond the GOB's control. The public sector's fiscal deficit was well within the limit set but was mostly financed with internal credit. In spite of these lapses, the IMF team was reasonably satisfied with GOB performance, particularly in the area of the public sector deficit, monetary management and exchange rate adjustment. Disbursement of the IMF tranches is to continue on schedule. New performance criteria and benchmarks were set for the next twelve-month period. The team urged adoption of additional measures to create a favorable investment climate (particularly passage of the hydrocarbon law and the investment and mining codes tied up in Congress) and to speed the pace of project approval and implementation.

The IBRD: The IBRD has provided two "Reconstruction Import Credits," one in June, 1986, and the second in July, 1987. The two combined total $102.1 million. These 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. During 1990, the GOB expects to utilize about $26.7 million from these two credit lines.

The IBRD also provided $70 million under its financial sector adjustment credit, of which 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. In 1989, $10 million were added to the same project, and another $9.5 million is in the process of being approved. The GOB expects the IBRD to disburse $9.7 million during 1990.

The Corporaciôn Andina de Fomento (CAF): 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. The whole amount has been disbursed. During 1990, the GOB expects to channel about $34 million to the exporters through commercial banks.

The IDB: While the IDB has the largest economic assistance program in Bolivia ($1.1 billion active project portfolio) it does not contribute any direct balance of payments support. However, several of its large scale projects (e.g. $183 million earmarked for the gasoduct to Brazil, $55 million in road pavement in 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 1990 are expected to be about $157 million.

The Japanese Government provided $50 million equivalent of co-financing for the World Bank's RIC II, thus supplementing that project's funding for the importation of equipment and spare parts, particularly by the public sector. Similarly, Japan is co-financing the financial sector adjustment credit with the IBRD and has provided $65 million. Foreign exchange resources will be used to finance general imports while local currency generations will refinance private sector debts to the banking system.

The Swiss Government (COTESU): The Swiss government has an annual program of $10 million in balance of payments support over 1990-91. Disbursements in 1990 are projected at about $5 million, of which 80% is destined for the private sector and 20% for the public. The money is to be used for the importation of agrochemicals and medicines. The whole amount is in the form of donations from the Swiss government. It is administered by the Central Bank. The assistance to the private sector will take the form of loans, with maturities up to three years. The reflows will be credited to the Fondo Social de Emergencia.

Germany: The West German government provides no balance of payments assistance as such, though its economic assistance program to Bolivia is substantial. During 1990, the German government is expected to disburse some $46 million. However, the whole amount is for specific projects or programs, some tied to procurement of German goods.

Note: Of the amounts described above, all amounts were included "above the line" in the $320 million and $336 million official loan disbursements in the balance of payments projections for CY 1990 and CY 1991, respectively (Table 13), and should not be treated as additional to the disbursements projected in that table.

XI. PROPOSED USES OF AND PROCEDURES FOR THE UTILIZATION OF THE DOLLAR RESOURCES

Funds may be used: (a) for repayment of official debt to the USG and to multilateral organizations; (b) to reimburse the Central Bank for eligible imports from the U.S.; and (c) should funds from the FY-90 program not be available and/or be insufficient, up to a total of $6 million, for the buy back of commercial debt, in conjunction with the World Bank and other donors, under the GOB's program with the IMF.

An agreed amount of local currency must be deposited in the local currency separate account before the dollars can be released from the BCB account for any use by the GOB. Local currency uses and amounts are discussed below in Section XII.

For a description of how the dollar resources will be monitored, see Section XII.E. below.

A. Procedures for the Use of the Dollars for Official Debt Repayment and Reimbursement for Exports

The following procedures and provisions will apply to the use of the dollars for official debt repayment and reimbursement for exports:

(1) Dollars will be disbursed to the separate account of the BCB in a U.S. bank upon meeting the conditions precedent for each tranche of funding and a request for disbursement by the Ministry of Planning;

(2) Funds used for repayment of official debt to the USG and the multilateral organizations will be disbursed by the BCB based on a debt repayment schedule prepared by the Ministry of Finance and agreed to by AID; and

(3) Reimbursements for eligible imports from the separate account to the BCB will be authorized by AID upon presentation by the Central Bank of documentation (including vendor's invoice, bill of lading, and Bolivian Customs' Import Policy) for transactions, as of the date of the vendor's invoice, from the date of first obligation of the program involving the importation of eligible commodities from the United States. AID will review these documents and satisfy itself that they represent eligible imports from the United States. Upon such finding, AID will advise the BCB of its acceptance of the documentation and the amount approved for reimbursement and will request that the equivalent amount of local currency be deposited to the local currency Separate Boliviano Account prior to reimbursement of the dollars.

B. <u>Procedures for the Use of the Dollars for Commercial Debt Reduction</u>

Funds to be used for the commercial debt buy back program will be made available according to the terms and conditions described below.

The attached (see Annex C) PPC Action Memorandum to the Deputy Administrator dated January 31, 1991, provides the authorization for using "up to $6 million in ESF for the commercial debt reduction program in Bolivia." The Bureau has agreed that this amount may be made available from either FY-90 or FY-91 resources, or in combination from both years, up to a total of $6 million.

At this time, not all of the procedural details for executing the debt repurchase program have been negotiated between the Mission and the GOB. Thus, the following description may change somewhat. However, the major elements, as described below, will be followed. If there are any changes in these major elements, the Bureau will be consulted prior to approval of the GOB request by the Mission.

(1) The Ministry of Planning will submit to the Mission a request for the disbursement of the $6 million from the Separate Dollar Account. Conditions have already been met for the FY-90 program. If all or part of the $6 million is required from the FY-91 program, then, prior to disbursement, conditions precedent for the tranche from which the funds are provided will have been met.

(2) The Ministry of Planning will then authorize the Central Bank to disburse the funds from the Separate Dollar Account to the multidonor "IMF-Administered Contribution Account" managed by the IMF. As soon as that disbursement is made, the use of the ESF dollars for support of the debt buy back program will have been accomplished since the presence of the funds in the account is a necessary condition for the IMF to issue instructions to pay the banks.

(3) The Contribution Account is an accounting entity for controlling the donations to fund the debt repurchase program for Bolivia. The cash donations to this fund will be kept in the account already opened in the name of the IMF at the Federal Reserve Bank (FRB) in New York for all donations. The account at the FRB will enjoy the privileges and immunities, for example, immunity from attachment, generally accorded IMF funds. The IMF will account for the transactions of the contribution fund. The Contribution Account will total approximately $23 million (there is approximately $211 million in outstanding debt to be redeemed at approximately $0.11 for each dollar of debt) of which AID's contribution would be up to $6 million. The Dutch and Swiss governments have also agreed to make available grant funds and the World Bank has promised $10 million of IDA resources.

(4) Because the buy back is a direct disbursement for an ESF objective, it will not be treated as foreign exchange used for eligible official debt payment or reimbursement for eligible import transactions and the usual documentation supporting the transfer will not be present. The only documentation required will be a certification from the Ministry of Planning, with appropriate confirmation from the IMF, that the dollar funds for debt reduction were fully disbursed to the IMF-administered Contribution Account for debt reduction and that these funds were subsequently used to support reduction of GOB commercial debt.

(5) When the AID funds are disbursed from the Separate Dollar Account to the IMF-administered Contribution Account, they will be commingled with the funds of other donors. If all goes according to plan, all transactions related to the AID-provided funds will have been completed before the end of May, 1991. Funds not used by September 30, 1991, except as the Mission may otherwise agree, will be returned to the Separate Dollar Account to be used for approved uses as described above, or as subsequently approved by AID/W.

(6) The IMF account, containing the contributions of various donors, is considered to be the only praticable mechanism to assist Bolivia in reducing the outstanding external indebtedness to private banks. The involvement of the IMF as depository of donor resources provides confidence to those donors, as well as assurances to Bolivia and to its private creditors, that such resources will in fact be available for use in accordance with the purposes of the debt reduction program. Further, because the IMF plays a central role in

the strengthened debt strategy and provides appropriate support to debt and debt-service reduction efforts, it is an appropriate institution to manage the resources. Any other mechanism would not provide Bolivia's creditors with the necessary confidence that funds are available. Accordingly, USAID/Bolivia will not attempt to track the AID donation to any particular type of repurchase of debt nor to any particular creditor because it is not feasible nor appropriate to do so.

(7) It should also be noted that the GOB repurchase program is a multi-donor, multilateral effort in which the procedures and requirements are specific, time-sensitive, and require the donors to deposit funds into an IMF account. The IMF will certify the date and the amount of disbursement and interest earned, if any. The IMF will also confirm the GOB certification that the disbursal of the AID contribution, and any interest, was used in accordance with terms and conditions of the IMF debt reduction program. The IMF will also transfer any unused funds back to the Separate Dollar Account, for other approved uses, if the funds are not used prior to September 30, 1991, or such later date to which the Mission may agree.

(8) USAID will also require that the Ministry of Planning request that the U.S. bank in which the Separate Dollar Account is located provide, directly to the USAID Controller, a statement verifying the amount of AID provided funds disbursed from the Separate Dollar Account to the Contribution Account.

In addition to the requirements in the FY-90 ESF BOP Agreement and those described in this PAAD for the FY-91 ESF BOP Agreement, the following procedural requirements will be included in either or both Agreements, as appropriate, to assure that the AID funds are used as approved for the IMF sponsored Debt Reduction Program.

(1) For purposes of debt reduction, disbursements from the Separate Dollar Account to the IMF-Administered Contribution Account for Bolivia will be made by the GOB upon approval of USAID.

(2) The GOB shall instruct the IMF to:

(a) promptly certify directly to USAID that the funds certified by the GOB as having been transferred from the Separate Dollar Account to the IMF-Administered Contribution Account were in fact transferred; and

(b) promptly use the AID contribution pursuant to instructions by Bolivia and certified by Bolivia to be in accordance with terms and conditions of the debt reduction program with the IMF, a copy of which has been provided to the USAID prior to the USAID's approval of the disbursement.

(3) The GOB will instruct the U.S. Bank to provide to USAID a written confirmation, within three days after the requested transfer, as to the amount of dollar funds, which were deposited in the Separate Dollar Account, disbursed from that account into the Contribution Account established by the IMF for use in accordance with the terms and conditions of the IMF debt reduction program.

(4) With respect to the contribution from the Separate Dollar Account to the IMF Contribution Account noted above, the GOB will instruct the IMF to undertake the following within three days after disbursement of the AID contribution or October 1, 1991, whichever comes first:

(a) provide to USAID a written confirmation of the date and amount of disbursement and interest earned, if any, and the amount of any unused funds remaining of the AID contribution, and that Bolivia has certified to the IMF that the disbursed portion plus interest thereon, if any, of the AID contribution was used in accordance with the terms and conditions set forth in the IMF debt reduction program;

(b) return to the Separate Dollar Account of the GOB, any unused funds and any interest earned, as of October 1, 1991, of the contribution; and

(c) confirm in writing to USAID that the unused funds, and any interest earned, have been transferred to the Separate Dollar Account and the amount of funds transferred.

(5) If any of the dollar funds provided under the Agreement and deposited into the Contribution Account opened by the IMF on behalf of Bolivia for use in the debt reduction program are not used to repurchase debt on or before September 30, 1991, the GOB shall, unless USAID agrees otherwise in writing:

(a) cause to be promptly redeposited that amount of dollar funds together with any interest earned thereon into the Separate Dollar Account; and

(b) use those funds for the other approved uses in the Agreement.

XII. PROPOSED USES OF AND PROCEDURES FOR THE UTILIZATION OF THE LOCAL CURRENCY

A. Use of Local Currency Generations

Discussions between AID and GOB representatives have been completed with respect to the proposed use of ESF Local Currency generations for the FY-91 Program. AID's goal is to require that the GOB make available an amount of local currency consistent with sound macroeconomic policy, while ensuring that adequate provision is being made to meet the following:

(1) The requirements of the AID Trust Fund in FY 91. This amount includes construction of the AID building and the operating expenses of the Mission are estimated at a combined total of $7.6 million.

(2) The counterpart requirement of AID financed projects. This amount is currently (and tentatively) estimated at about $12.0 million. Failure to provide local currency for counterpart AID projects would significantly reduce the Mission's effectiveness in achieving its objectives, including the accomplishments of the Alternative Development Program. It is expected that $3.7 million will be allocated in the Alternative Development Program to rural roads, electricity and labor intensive infrastructure related activities. Furthermore, $1.5 million will be allocated to the Export Promotion Project which will promote free trade zone initiatives and foreign investment (and complement the Mission's efforts made on Alternative Development). About $1.1 million will be devoted to primary health care and water projects, $0.65 million to micro and small enterprises and $0.334 million to the justice sector (both of which complement the Alternative Development Program).

(3) GOB requirements for institutional support and counterpart requirements for multilateral donor projects, particularly from the IDB and the World Bank. ESF local currency generated funds will also be provided to CONALID (Consejo Nacional de la Lucha Contra el Uso Ilícito de Drogas), the executive office in charge of implementing the GOB's interdiction and alternative development programs, and to meet GOB counterpart requirements for the IDB, IBRD and other multilateral donors and high impact GOB projects. As shown in Table 14, the GOB plans to allocate these funds primarily to road infrastructure, institutional support and the social sectors. It is expected that the funds provided by the ESF Program in local currency would release an additional $75 million of multilateral donor funds for the GOB public investment program.

Failure by the Mission to provide the ESF local currency funds to meet the GOB's requirements for the implementation of its alternative development program and counterpart funds for the implementation of donor financed projects, would significantly undermine the Mission and GOB efforts to achieve the Alternative Development Program objectives and the GOB's public investment plan.

(4) Approximately $16.0 million will not be monetized to assist the GOB's grave fiscal situation.

The proposed use of FY 91 ESF Local Currency generations is summarized below. As indicated, this proposal may be modified in the course of the program's implementation:

	(In Millions of Dollars)
AID Requirements:	
Trust Fund	$7.6
Counterpart for AID	12.0
	$19.6
GOB Requirements:	
Counterpart for Public Sector Projects*	30.4
Subtotal	50.0
Estimated Amount not Monetized	16.0
Total	66.0

*/ $6.5 million for CONALID and $25.0 million as described in Table 14.

During discussions with GOB representatives, we clarified that (as in CY-90) if the GOB planned to make compensation payments to coca eradicators during the year, these funds could not be made from the ESF LC. They described their plans for providing funding from the GOB's own resources, estimated to run at $14 to $18 million during the twelve-month period. A separate budget line item appears in the 1991 budget for this purpose.

B. Programming and Control of the Local Currency

With regard to the programming and control of the Boliviano counterpart funds to be provided by the GOB under the Agreement, the Mission negotiated procedures for the FY-90 program which avoided the delays in deposit of the local currency experienced under the FY-89 and earlier programs. These same procedures will be used to allocate the local currency for the FY-91 Agreement.

The following procedures and provisions will apply to the use of the local currency:

(1) Prior to the initial U.S. dollar disbursement of the grant to the account of the Grantee, the Grantee will establish a separate account in the BCB for deposit of the local currency;

(2) The bolivianos made available by the GOB pursuant to the agreement and subsequent operational letters will be used for counterpart contributions to AID and multilateral development organizations' projects, priority GOB projects, and for purposes of the USAID Trust Fund Account;

(3) Prior to the first disbursement of counterpart funds from the separate account, except for disbursements to the Trust Account, the Grantee will submit to AID, for AID review and approval, the Grantee's proposed plan for the use of counterpart funds. This will be reviewed by the Mission's local currency use committee and, as necessary, modified after consultation with the Ministry of Planning (MOP), and then approved by AID and the MOP via a countersigned operational letter. A preliminary proposal for the use of the local currency is presented earlier in the section;

(4) The initial deposit of local currency will fund 50% of the USAID Trust Fund requirement for FY 91. The remainder of the Trust Fund amount will be deposited pursuant to the second disbursement of $22 million. The Trust Fund will be used to finance the operational costs of the USAID Mission in Bolivia and initial costs of the new USAID offices. Remaining local currency funds from the first disbursement and subsequent boliviano deposits into the separate account will be made available for the purposes listed under item (2) above;

(5) All Boliviano deposits made by the grantee into the local currency separate account will be calculated at the highest rate of exchange which is not unlawful in Bolivia on the day the deposit is made; and

(6) The BCB will be required to inform the Ministry of Planning and Coordination and AID of all counterpart deposits made available under the agreement and will submit any financial information that AID might reasonably request.

C. Local Currency Deposits Through the FY-90 Program

As of January 15, 1991, the following is the status of the LC deposits:

PROGRAM	TOTAL DOLLARS DISBURSED ($000)	AMOUNT LC REQUIRED ($000)	AMOUNT LC DEPOSITED ($000)	OUTSTANDING LC AMOUNT ($000)
FY-86	7,177	7,177	7,177	0
FY-87	7,160	7,160	7,160	0
FY-88	7,320	7,320	7,320	0
FY-89	17,625	17,625	17,625	0
FY-90	18,000	6,500	6,500	0
TOTAL	57,282	45,782	45,782	0

The GOB made a major financial effort between the end of February 1990 and September 15, depositing approximately $16.1 million for all programs. The remaining local currencies were deposited by January 15, 1991. LC deposits for all ESF programs now have been completed.

D. Experience with the FY-90 Program

The FY-90 ESF Program was signed on May 9, 1990. Three disbursements of $6.0 million were made. The first was authorized on July 13, and the second on August 17. The GOB requested the third and last disbursement on August 16, 1990. On August 23 the Mission cabled to AID/W that the GOB had complied with all Conditions Precedent for the third disbursement. The third disbursement was approved by AID/W and authorized by the Mission on October 18, 1990.

On July 31, the ProAg, originally signed on May 9, 1990, in Washington, was amended to concur in the GOB request that the government be required to deposit an amount in local currency equal to only half of the dollar proceeds of the $18 million FY 90 grant. The other 50% would not be monetized. The Mission agreed to this request "on macro economic grounds . . . because of the great pressure on the GOB for local currency for many needs, including counterpart to AID projects, the PL 48 Title III account, counterpart to multilateral projects, as well as GOB expenditures." AID/W gave the Mission authority to require an amount of local currency consistent with trust fund and other requirements and sound macro-economic policy in its FY 90 PAAD Review Cable. Based on a subsequent request by the GOB and review of the situation at that time, the ProAg was further amended in November 1990 to reduce the amount to be monetized to $6.5 million due to GOB continuing revenue problems.

The GOB made a deposit of the equivalent of $583,000 for counterpart funding in mid-August, an additional $2.0 million on September 5, for the FY-90 program (covering the full Trust Fund requirement), and by mid-September approximately $1.0 million to cover arrears under previous years' programs. Most of what was remaining outstanding at that time corresponded to the last disbursement of $6.0 million made in late October under the ESF FY 90 Program. However, all of the remaining local currency was deposited by January 15, 1991,

In order to resolve the continuing arrearages problems, the Mission proposed and the GOB agreed to new procedures formalized in Project Operational Letter (POL) dated July 13, which provides that before the Mission would agree to release dollars from the Separate Dollar Account, the GOB would deposit the equivalent amount in bolivianos in the separate local currency account, and would advise the Mission in writing that this deposit had been made. These procedures have been effective in avoiding further arrears and eliminating the outstanding balances. As of mid-September the

Mission had received a listing of the proposed uses of the dollars of the $18 million FY 90 balance of payments grant, which was revised in December. This list has been approved by the Mission, and we authorized disbursements of dollars from the BCB separate account upon receipt of the confirmation of the LC deposits.

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

As the Balance of Payment program for both dollar and local currencies has expanded since the first $7 million were obligated in 1986, and as Agency guidance regarding management and monitoring tightened, the Mission began taking the necessary steps to strengthen the monitoring over these resources both in the Mission and the GOB. In 1987, the USAID/B Controller's office was reorganized to include two financial analysts with the sole 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.

In 1988 the Mission 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, called DIFAD, has now been expanded to more than twenty-five people with responsibilities of coordinating and monitoring all bilateral and multilateral donor's activities with primary responsibility for the BOP's dollar and local currency resources. The MOP has recently signed a contract with a local consulting firm for an overall reorganization of the Ministry in general and DIFAD in particular. The reorganization will include additional staff (as local currencies climb to over $100 million) and an internal audit staff constantly reviewing the use of the local currencies by the various implementing agencies. In addition, DIFAD has just signed a contract with a local CPA firm that will audit all activities up to December 31, 1990, and will begin performing concurrent audits for the life of the program.

F. Reporting and Accounting for the Local Currency

DIFAD has installed an accounting and reporting system similar to the systems installed in the PL-480 Executive Secretariat. This system will be further refined during the reorganization described above. DIFAD 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.

As described above, local currency uses are divided into two areas, counterpart for AID projects and counterpart for multi-lateral donor projects. The Mission fulfills its monitoring responsibilities for the former in the same manner as with the dollar funds under the project. Every mission project now has costs for audit included in the respective budgets and the DIFAD local currencies are included as part of the 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 DIFAD implement the following:

- DIFAD executes a project agreement with each implementing institution. These agreements incorporate most of the standard clauses used in AID HB 3 agreements;

- DIFAD's internal audit group, although not yet fully staffed, has been making field trips to each project. So far this staff has been able to cover only about 10% of disbursements to date, but this will increase to about 25% once the reorganization is completed;

- With regard to the GOB priority projects, the present DIFAD staff reviews in more detail the expenditure for the these projects than for the multilateral program and carries out more frequent field visits;

- External audit coverage will greatly enhance the Mission's level of confidence regarding the expenditure of funds; and

- The Mission Controller's financial analysis staff is planning more field reviews of expenditures together with the internal audit staff.

In conclusion, we believe that the above actions being taken by the GOB and USAID/B, provide accountability standards as required in the lastest Agency and LAC Bureau policy guidance.

XIII. PROPOSED CONDITIONALITY

As in the PAADs for recent years, most of the conditionality outlined here relates to compliance with counternarcotics objectives, particularly coca eradication and interdiction targets, as this represents the USG's primary and overriding foreign policy concern in Bolivia. Moreover, strict macroeconomic performance targets are set periodically by the IMF as part of its ongoing SDR 136 million Enhanced Structural Adjustment Facility (ESAF), negotiated during June/July of 1989. An IMF Team was in La Paz during the first half of June 1990 to negotiate performance indicators and policy adjustments for the second year of the ESAF. (See Cable LA PAZ 8374 of June 17, 1990, on the IMF team's findings.)

The CPs and covenants set forth below assume that $66 million will be made available in FY 91, to be disbursed in three tranches. The projected disbursement period is February 1, 1991 to December 31, 1991. The funding will be provided under two obligations of $22 million and $44 million, respectively, 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 this twelve-month period is 7,000.

As with the FY 1990 PAAD, the Mission proposes that several counter-narcotics conditions with targets for each disbursement be contained in the agreement. Compliance will not necessarily be expected with each and every target indicated as a CP for each disbursement. Rather, we will be looking for substantial progress on eradication and interdiction prior to authorizing each disbursement. This approach will permit an overall evaluation of the progress made in achieving the desired result, including an assessment of GOB cooperativeness and seriousness in meeting the objectives of our joint narcotics program. The decision on each disbursement will be made by the Ambassador in consultation with the Embassy Country Team, after AID/W has consulted with Congress. (See Section XIV, Issue 5, for discussion of this point.)

These conditions have been discussed with th GOB and the negotiations will be completed after approval of the PAAD. This may necessitate some adjustment of language by the Mission on the conditionality and covenants, but would not result in any substantive changes. We would not propose to consult with AID/Washington on such changes.

A. Conditions Precedent

1. First Tranche: $22.0 Million

Prior to the disbursement of the first tranche, the GOB will comply with the standard Conditions Precedent (legal opinion and authorized representatives), as well as having substantially complied in form and substance satisfactory to the USG, with the following conditions:

Establishment of a Separate Dollar Account in a U.S. bank and a Separate Boliviano Account for the deposit of the US dollar and boliviano proceeds of the Grant, respectively;

Provision of written procedures governing how the dollars and bolivianos will be deposited and disbursed;

Amendment of the Trust Account Agreement dated June 6, 1986, as amended, providing that the equivalent in Bolivianos of $7.6 million will be made available by the GOB to the Trust Account to finance USAID's operating expenses, according to a depcsit schedule provided by the Mission;

The GOB will 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 most importantly, by the arrest, incarceration or extradition of large-scale cocaine traffickers; and

The GOB will prepare and provide to the United States a plan for a coordinated program of affirmative measures by the Bolivian Government to implement the provisions of the coca and controlled substances Law of 1988 (Law 1008) and its implementing regulations which declare illegal the cultivation of coca in areas or under circumstances prescribed by that law, through the prompt and full eradication of such illegally-grown coca without compensation to the grower, except insofar as may be specifically prescribed by the law.

2. Second Tranche: $22.0 Million

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

Eradication of a total of 3,500 hectares of coca cultivation, counting from January 1, 1991;

Continue to conduct 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;

For the period July 1, 1990 through March 31, 1991, the GOB shall remain in substantial compliance with the targets for the fiscal deficit of the consolidated public sector, credit expansion (overall and to the public sector), and net domestic assets of the Central Bank, set in the GOB Agreement with the International Monetary Fund; and

Take affirmative steps to implement the plan for eradication by the Bolivian Government of coca grown in areas or under circumstances which are illegal under Law 1008 and its implementing regulations, including having accomplished the actual eradication by officials of the Bolivian Government or persons acting under their direction, of coca seedbeds, coca planted since the effective date of the law, coca grown under contract or outside the traditional or transitional zones, or otherwise grown illegally.

3. Third Tranche: $22.0 Million

Prior to the disbursement of the third tranche, 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, counting from January 1, 1991;

Continued to conduct a vigorous law enforcement campaign, whose measures of effectiveness are described in paragraphs 1 and 2 above; and

Accomplish the actual eradication of quantities of coca mutually agreed to be significant, which are illegal under Law 1008 and its implementing regulations.

B. The following covenants will be contained in the agreement:

1. The GOB, in accordance with its commitment to seek to conclude bilateral agreements to enhance the effectiveness of extradition (Article 6, paragraph 11, of the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances) shall sign the draft Extradition Treaty, which was negotiated with the United States in early 1990 and submit it to the Bolivian Congress for ratification. Until the new Treaty enters into force, the GOB will cooperate with the USG to ensure that necessary action is taken such that persons found within the territory of Bolivia for whom arrest warrants are outstanding in the United States are brought promptly within the jurisdiction of United States Courts.

2. The GOB will continue to give priority to the implementation of the stabilization and reactivation program. The GOB agrees to provide data to AID, on a continuing basis, on the progress of the Stabilization/Recovery Program to enable the Mission to make an independent assessment, in consultation with the IMF Representative, of GOB compliance with the targets set in the IMF/GOB Agreement.

3. Maintain a flexible exchange rate: at a minimum, the real value of the Boliviano will not be allowed to appreciate in relation to the dollar during the period January 1, 1991 through December 31, 1991.

4. With respect to the promotion of non-traditional exports, the GOB agrees to: (a) further simplify existing bureaucratic procedures governing exports by the private sector, reducing them, if possible, to the filing of a single form; (b) simplify the current very complex rules ("reglamentos") governing the admission and exoneration from duties of goods entering the proposed free zones ("zonas francas"), abolishing the distinction between

"commercial" and "industrial" zones; and (c) determine the location of at least one free zone in close consultation with interested foreign investors and make provision in the 1992 budget for public investment in essential infrastructure for the zone selected.

5. The Government of Bolivia will engage in good faith negotiations with the U.S. Government to establish a mechanism to exchange records, upon request by either party involved in on-going narcotics investigations, on currency transactions in excess of $10,000, in accordance with Section 4702 of the U.S. Anti-Drug Abuse Act of 1988.

6. The Government of Bolivia will engage in good faith negotiations with the U.S. Government to arrive at a Tax Information Exchange Agreement, under which tax authorities of both countries would exchange information on specific cases under investigation upon request by either party.

7. Consistent with international standards on human rights, the GOB will undertake sustained, vigorous efforts to investigate, arrest, and bring to justice all terrorists who are suspected of, or who have committed terrorist acts against U.S. citizens in Bolivia. The U.S. reserves the right at any time to suspend disbursements under this agreement, or to suspend or terminate the agreement, in accordance with the remedies provided herein, if in its judgment the GOB fails to implement this covenant fully and forcefully.

XIV. ISSUES RAISED BY AID/W

A. The following are the Mission's discussion of the issues raised by AID/W in its Concept Paper Guidance Cable to the Mission (STATE 280677 of August 22, 1990):

> Issue 1: Should there be conditionality for each tranche which would require that all or most of the dollars deposited into the separate account, from the previous tranche, be utilized prior to disbursement (of the current tranche)?

Response: At the review, the Bureau concurred with the Mission's recommendation not to require utilization of dollars of previous tranches prior to disbursement of current tranches. The Mission had not included this condition for the following reasons:

(1) Our ESF assistance is divided into three tranches designed to be disbursed at about four-month intervals. It may not be administratively feasible for the GOB to use the full amount so quickly for the specific purposes authorized (e.g. payment of multilateral debt or imports of eligible commodities from the United States). While we would certainly be justified in objecting to significant increases in the balance of the Separate Dollar Account

from one year to the next, the wisdom of applying this criterion on a four-month basis, given the requirements of the GOB debt amortization schedule, bureaucratic delays inherent in gathering and certifying import documentation, and administrative impediments, does not appear justified.

(2) If the Central Bank's net international reserves rise <u>temporarily</u> as a result of our balance of payments assistance, this should not be cause for concern. The build-up of Bolivia's net international reserves (at a very low level on December 31, 1989) is a major IMF objective.

> <u>Issue 2</u>: Should net reduction of coca production be included as a Condition Precedent? Should the PAAD include more counter- narcotics data and analysis?

<u>Response</u>: At the review, the Bureau concurred with the Mission's recommendation not to include net reduction as a condition in the FY 91 assistance. Still, the U.S. Mission will discuss this issue in its on-going dialogue with the GOB. Our recommendation was based on the following rationale: In setting eradication targets as CPs, we have continued to avoid reference to "net" eradication figures. This issue was discussed at length with the head of the NAS who pointed to the impracticality of using a net eradication figure at the time of disbursement of each tranche. The reason for this position is that such a determination can only be made at certain times of the year. This could hold up approval of a particular tranche by several months. In addition, the methodology used to determine net reduction involves a significant margin of error. On the other hand, the eradication of coca lands currently under cultivation is closely monitored by DIRECO (the GOB institution in charge of this program) and is verified by US Mission staff.

With regard to the second part of Issue 2, please note that we have included in the PAAD a detailed section providing data on the progress of eradication and of the interdiction campaign, as well as on trends in alternative development over the past several years.

> <u>Issue 3</u>: Does AID support a "notwithstanding" clause in the draft antinarcotics legislation which will permit use of ESF generated local currency for payment of compensation to farmers who eradicate coca?

<u>Response</u>: The Mission supports the insertion of such a clause. The Ambassador indicated that he would seek an amendment to the current legislation to permit the use of local currency generations for the payment of compensation. However, this PAAD was not written on the assumption that this amendment will be adopted. It specifically states that compensation will be effected by the GOB with its own resources. Admittedly, there would be greater assurance that local currency would be available when needed to make compensation payments if such an amendment were approved.

Issue 4: Is it feasible to include conditionality related to interdiction?

Response: We consider it quite important that our assistance conditionality include well-defined criteria for assessing the degree of GOB commitment to counternarcotics law enforcement and to measuring the effectiveness of its efforts. These include the "substantial" seizure and destruction of cocaine products or chemicals used in their production, the destruction of physical facilities used in the production and distribution, and the arrest, incarceration or extradition of major cocaine traffickers. While the GOB objected to inclusion of the ten-ton seizure goal in the FY-1990 ESF program, there is agreement at the highest levels of the GOB to include the non-quantitative conditions proposed for the FY 1991 program. We have discussed the proposed conditionality with the Ministry of Foreign Affairs and will complete negotiation on approval of the PAAD.

Issue 5: Should the LAC Bureau be consulted prior to approving disbursement of tranches whenever counternarcotics conditions precedent are involved?

Response: We understand that AA/LAC will discuss the issue of progress on counternarcotics activities on a continuing basis with Congress, and will advise the Mission of the anticipated Congressional reaction to the disbursement of a forthcoming tranche or tranches. The Mission proposes to notify the LAC Bureau at least two weeks before each disbursement is expected of the evidence it possesses that the CPs have been met and of its intention to effect the disbursement. This will give the Bureau time to consult with Congress and advise the Mission of its approval for the disbursement in timely manner.

Issue 6: Should the first tranche, expected to be disbursed before 11/30/90, have conditionality relating to counter drug targets?

Response: The first tranche will not be disbursed before February, 1991. However, in general we concur with the Bureau's decision not to include such conditionality. The Mission omitted inclusion of a specific eradication target prior to disbursement of the first tranche in order to ensure that the GOB could not claim that it lacked the local currency resources to carry out the conditionality of the program. However, the CPs for the first tranche include the conduct of a vigorous on-going campaign for the enforcement of the anti-drug laws as evidenced by substantial seizures or destruction of . . . (see first paragraph of page 44); and the submission of a coordinated program to enforce measures providing for the prompt and immediate eradication of illegally grown coca (see second paragraph of page 44).

B. The following clarifications are included as required by the DAEC Review of the PAAD, which are contained in paragraph 3 of State 044848 dated February 11, 1991.

Clarification A: Although GDP increased by 2.6% during 1990, the population growth rate also increased by about the same amount. Page 14, section C. "Gross Domestic Product," has been modified to reflect this fact.

Clarification D: Section XII has been modified to bring the document into compliance with financial management guidance and payment verification requirements.

Clarification E: Sections XI and XII have been modified to describe how the use of local currency will be reported and accounted for as required under the local currency guidance.

C. The following clarification is required by paragraph 4 of the same State cable: "LAC recognizes the various ways in which the Mission is addressing private sector/investor confidence issues and GOB slowness in initiating measures to stimulate trade and private investment . . . and to improve Bolivia's overall investment climate. However the Mission is asked to outline more clearly in the PAAD the policy dialogue agenda it plans to pursue, the role this ESF program will play in moving reforms forward in trade and investment, and how this ties in with other Mission efforts in this area."

Although the Mission plans to discuss these issues in more detail in the Action Plan document to be forward to AID/W in March, a brief discussion highlighting these issues is provided herein.

Over the past years USAID and the Embassy we have regularly discussed with the members of the GOB's financial team the importance we attached to the passage of key pieces of legislation in order to support the economic reactivation program. These included the Hydrocarbons Law, the Private Investment Code, the Mining Law, and the Privatization Law. The first two of these have been enacted and the third is before the Congress now.

Additionally, we have been working with the government under our Export Promotion Project to support growth in exports through the provision of TA and credit funds. This ESF Program contains a covenant regarding simplifying the procedures for exports which we will be discussing with appropriate GOB authorities under the auspices of this program.

Under the Strengthening Financial Markets project we have been supporting a series of initiatives including the creation of a stock exchange, changes to the Banking Law, and strengthening of private sector organizations.

The Privatization Project has sponsored a series of seminars for regional audiences on privatization. We have been able to bring in as speakers key players in the privatization process from Chile and Argentina to lend credibility and relevance to the issues of privatization in Bolivia. We are now seeing the first moves towards privatization at the regional level even in the absence of a privatization law.

Finally, in conjunction with the Econ section of the Embassy, we have worked on issues affecting U.S. investment in Bolivia and promotion of U.S. exports to Bolivia under initiatives of the USTR.

ANNEX A

USAID/BOLIVIA ALTERNATIVE DEVELOPMENT

I. Economic Background

Coca production has increased significantly since the late 1970s, due to a series of negative factors which contributed to the expansion of the coca-cocaine industry. In 1980, under the unconstitutional Garcia Meza military regime, the coca-cocaine situation worsened dramatically as this illicit trade reached the highest government levels. By 1985, the economic situation was chaotic: GDP had declined for three straight years, virtually all sectors of the economy showed declines. Although the Government adopted several economic reforms in an effort to mount an effective recovery program, they proved to be isolated attempts which prompted strong union pressure and general popular resistance. The net effect of this situation was to exacerbate the nation's economic difficulties, resulting in a twenty-fold increase in the 1984-85 public sector deficit, and an inflation rate of 20,000 percent between August 1984 and August 1985. Other negative factors were the 1983/84 natural disasters caused by El Niño drought and floods. These calamities caused tremendous losses to the GOB and stimulated political discontent at the GOB's inability to respond adequately to the country's severe economic crisis and natural disasters.

At that point, the new Paz-Estenssoro government called for drastic measures to restore public confidence and bring about economic stabilization. Among these measures were the restructuring and decentralization of Bolivia's main state enterprises (the mining state enterprise and the state petroleum company). The collapse of tin markets, reduced earnings from natural gas, and increased unemployment rates caused by closure of many of Bolivia's unproductive tin mines exacerbated an already serious employment problem, providing a ready workforce for the expanding coca industry.

The illicit coca industry which includes coca leaf production, processing and marketing, has been an extremely profitable activity which generates significant levels of foreign exchange, income, and employment for Bolivia. Export proceeds account for approximately 60% of total legal exports. The coca-cocaine business represents about 12% of the GDP and it provides employment (direct and indirect) to approximately 350,000 people, about 12% of total employment. However, while it has helped alleviate the foreign exchange crunch, and provided an outlet for Bolivians seeking jobs, coca distorts Bolivia's economic structure.

This negative economic impact also has threatened democratic stability, increased corruption, increased drug consumption and overall moral deterioration, as well as disruption of the family and destruction of individual values. Other negative repercussions are: anarchy in coca growing regions, damage to Bolivia-USA relations, and worsening of Bolivia's position in the international community. The coca industry has become a cancer with the serious consequences of 1) distorting the price structure through the appreciation of the exchange rate, 2) making the economy greatly dependent on coca for its stabilization and reactivation processes, and 3) diverting resources which otherwise would go to legal and productive activities.

The "coca boom" is the latest in a succession of one-product "booms" in Bolivian economic history that provide employment and income for a short period, and then leave the country more impoverished than before. "Boom" and "bust" cycles based on single commodities have plagued Bolivia's economy since Colonial times.

In 1985 the Paz Estenssoro government courageously undertook drastic measures to restore public confidence and to bring about economic stabilization which has since proven successful. In order to achieve the objective of full economic recovery, however, Bolivia still has to face many challenges: 1) the need to find new sources of foreign exchange; 2) ways to increase income and employment; 3) the need to maintain confidence of the public and investors in democracy; 4) the need to strengthen its human resources and institutional capacities; and 5) the need to develop the country's infrastructure base in order to foster increased agricultural production, exports, import substitution, and other private sector led, growth opportunities.

II. Evolution of the Alternative Development Strategy

The search for the means to combat illegal coca industry in Bolivia has gone through several stages that can be summarized as follows:

-- Initial USG efforts were aimed at helping Bolivia eliminate all areas of coca production, but were later modified to eradicate coca only in non-traditional growing areas, e.g. the Chapare, which is the main source of coca processed into cocaine.

-- Programs were later initiated to develop alternative crops to coca in the Chapare Region. The goal of the program was to gradually substitute coca with other economically viable crops.

-- Several lessons were learned: 1) there was no crop capable of competing with coca's prices, markets, and added value, unless coca prices were driven down by effective law enforcement and interdiction, 2) effective technical assistance cannot be provided until interdiction takes place, and a minimum of government presence and law enforcement had been established, and 3) viable approaches needed to include economic opportunities for the marginally employed outside of the Chapare.

-- Therefore, the approach was amplified to support alternative development in areas outside of the Chapare (i.e. associated high valleys) that export labor to Chapare, while project activities continued in the Chapare region to support the establishment of the Bolivian government's agricultural research, extension and credit programs in that area.

-- Currently, USAID's strategy is to continue with economically viable interventions in the Chapare, in the associated labor-surplus high valleys, as well as in areas with growth potential, but in conjunction with a broader and more concerted program as described below.

III. The Current Alternative Development Strategy

Stated simply, Alternative Development is the progressive transformation of the Bolivian economy from reliance on coca to a diversified, sustainable and growing economy that does not depend on coca. The strategy to accomplish this end will be achieved through the following activities toward which most of USAID/Bolivia's resources are directed:

- -- replacing lost foreign exchange earnings, income and employment provided by the coca industry, and
- -- promoting equitable economic opportunities for men and women who have worked or are likely to work in coca, and for Bolivians in general.

Our economic support package beginning in FY 1991 is designed to spur sustained economic growth, diversify Bolivia's export base to increase foreign exchange earnings, create the jobs necessary to attract people away from illicit coca production, and meet the basic needs of Bolivia's poorest population. Our resources and efforts, in conjunction with the GOB and the donor community, must create the conditions for sustained growth that will permit the transition from a coca led economy to one with a stable, legitimate, and diversified economic base.

The Mission's strategy is based on the premise that with continuing strong demonstrations of GOB political commitment to effective interdiction--essential to keep coca prices down below the costs of production--the activities we will foster under our program throughout the country will contribute to drawing people away from coca production and preventing further migration to the Chapare region.

The short-term operational objectives are to:

- -- compensate for foreign exchange losses;
- -- assist the GOB in maintaining economic stabilization and reactivating the economy;
- -- generate jobs/employment opportunities;
- -- support the GOB in its narcotics awareness/prevention efforts,
- -- strengthen incentives for private sector investment that will allow equitable distribution of income and employment opportunities.

The range of target groups for USG assistance has also been expanded to address the primary objectives above. In addition to men and women involved in coca, programs will serve the chronically unemployed, seasonally unemployed and the underemployed. Incentives will also be given to attract domestic entrepreneurs and international investors, with an emphasis on increasing Bolivian exports.

Our strategy calls for continued agricultural research, extension, credit, marketing and infrastructure activities in the Chapare and adjacent high valleys. In addition, balance of payments support assistance, rural roads, electrification, export promotion and micro enterprise development activities will be carried out there and in other regions of the country. Along with other donors, social and productive infrastructure will be expanded in order to make these regions economically attractive for coca growers as eradication and interdiction measures proceed.

IV. The GOB's Alternative Development Program

The GOB alternative development strategy prepared by a inter-ministerial coordinating unit (CONALID), is premised on: 1) recognition of the long-run distortions of Bolivia's economy and democratic system caused by dependency on coca production and export, and 2) recognition that any alternative development program has to be supported by law enforcement and other efforts envisioned under Cartagena agreements. The GOB's program contemplates eradication of all coca crops currently used for illicit production within a six-year period.

The strategy calls for an integrated program to replace the coca economy within a six year period, to provide compensation for the social and economic costs of eradication, and also to promote the structural changes that are necessary to avoid foreign exchange losses which an eradication program will incur.

More specifically, the GOB's strategy seeks to:

-- replace all economic activity related to the production of coca for export and of coca derivatives,

-- achieve a net rate of GDP growth (greater than the growth rate of the population),

-- initiate the decentralization of the state administrative and political apparatus to achieve greater efficiency,

-- improve the quality of life of the population by improving levels of nutrition, health, education and housing, raising the level of public investment with major emphasis on the provision of basic infrastructure, and through the participation of the private sector in the management and control of productive activities and of some public enterprises;

-- raise the level and quality of employment.

Implementation plans call for activities aimed at: 1) compensating the population displaced by the eradication programs through short-term employment projects supporting long-term infrastructure needs and other socially oriented efforts, 2) generating investment oriented toward the diversification of the productive sector with priority given to projects that promote export capacity and/or agricultural growth, and 3) balance of payments support to facilitate transition from a coca dependent economy to a non-coca economy.

V. The Role of Other Donors

Up to now, the problem of coca in Bolivia has been generally seen by the donor community as a USG concern, basically oriented toward interdiction, eradication and crop substitution efforts in the Chapare area. Now that Bolivia has successfully demonstrated progress on coca eradication, and has expressed its strong willingness to carry out its own alternative development strategy, the donor-community needs to be sensitized to this broader vision of "alternative development" which encompasses more concerted national development efforts as well as serious enforcement efforts.

The role of the donor community is vital to the successful implementation of the GOB's alternative development strategy. The USG Mission in Bolivia will actively seek consensus among the main multilateral and bilateral donors to buy into the alternative development plan and will make every effort to support the GOB's efforts to obtain the financial resources needed to implement its plan. The most recent event was a donor meeting at the Consultative Group in Paris which took place in October 1990. The meeting was successful in that the level of international donor commitments for Bolivia was substantitally raised and Bolivia's strategy for alternative development was given general support.

VI. The Future of Alternative Development Program

The Mission will continue to assist Bolivia during its transitional period of reducing coca production and export by compensating for such losses, and by promoting the expansion and diversification of legal non-traditional exports. Our proposed strategy for alternative development is tri-partite:

First, USG appropriated funds will finance specific projects, such as the Chapare and Associated High Valleys project, Export Promotion, Micro and Small Enterprise, Market Town Capital Formation and supporting infrastructure activities, such as rural roads and electrification, which provide alternative sources of income and employment.

Second, USG balance of payments support (PL 480 Title III and ESF) will assist in offsetting foreign exchange losses from reduction of the cocaine trade as Bolivia reduces its economic dependency on coca. It will also reward continued sound economic performance and provide local currency for alternative development and other development projects.

Third, an expanded narcotics awareness program is designed to develop greater recognition among Bolivians of the threat of the narcotics problem to the social and economic fabric of Bolivian society, and to strengthen Bolivian participation in the economic transformation process.

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1990 Appropriations Act Sec. 569(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?

   1. See INCA '90 Sec.4 and FY '91 AA Sec 559(a)(2). Determinations under these provisions must be made before the initia obligation of FY'91 ESF Funds for Bolivia planned at $22 millio

2. FAA Sec. 481(h); FY 1990 Appropriations Act Sec. 569(b). (These provisions apply 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 is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs

   2. In addition to the above determination, before the second obligation of FY '91 ESF Funds for Bolivia planned at $44 millio a positive determination under FAA Sec. 481(h) must be made.

51

are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) 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 (1) 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 (2) the vital national interests of the United States require the provision of such assistance?

(a) Yes

(b) The President must so certify before the second obligation

3. 1986 Drug Act Sec. 2013. (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

3. These matters will be covered by the Certification in March 1991 pursuant to FAA 481(h).

- 58

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?

4. <u>FAA Sec. 620(c)</u>. 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? — 4. No.

5. <u>FAA Sec. 620(e)(1)</u>. 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? — 5. No.

19
5

6. FAA Secs. 620(a), 620(f), 620D; FY 1990 Appropriations Act Secs. 512, 548. 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, South Yemen, 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?

6. No.

7. 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?

7. No.

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC?

8. No.

9. 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?

9. No. Bolivia is landlocked.

c60

10. FAA Sec. 620(q); FY 1990 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 1990 Appropriations Act appropriates funds?

10. (a) Yes, on 8/7/90, but Sec. 620(q) was waived.

(b) No. See 91 State 023169, and FY '91 AA, Sec. 518.

11. 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.)

11. Yes, taken into accou by the Administrator at the time of approvi of the Agency OYB.

12. 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?

12. No.

13. 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 A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

13. USAID/Bolivia has no information on Bolivi UN obligations payment status. Please check FY '91 "Taking into Consideration" memo.

/ 61

14. <u>FAA Sec. 620A</u>. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?	14. No.
15. <u>FY 1990 Appropriations Act Sec. 564</u>. 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?	15. (a) No. (b) No.
16. <u>ISDCA of 1985 Sec. 552(b)</u>. 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?	16. No.
17. <u>FAA Sec. 666(b)</u>. 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?	17. No.
18. <u>FAA Secs. 669, 670</u>. 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? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)	18. No.

6V

19. FAA Sec. 670. 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?

19. Bolivia is not known to possess nuclear weapons, nor to have exported from the U.S. any such nuclear material.

20. 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.)

20. Yes.

Yes, this has been taken into account in past such memorandum.

21. FY 1990 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?

21. No. FY '91 AA, Sec. 513.

22. FY 1990 Appropriations 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?

22. Yes. See Sec 539 of the FY '91 AA.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

1. (a) No.

b. FY 1990 Appropriations Act Sec. 535. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

(b) No.

2. Economic Support Fund Country Criteria

a. 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?

2. (a) No. See also Sec. 556 of the FY '91 AA.

b. FY 1990 Appropriations Act Sec. 569(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking?

✓ (b) Yes, for FY '90. However, prior to obligation of FY'91 ESF funds, positive determinations must b made for Bolivia unde Sec 559(a)(2) of the FY'91 Approp.Act. an INCA '90 Sec.4.

-64-

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1990 Appropriations Act Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

   1. Congress will be duly notified prior to obligation of FY '91 ESF Funds.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   2. No legislative action is required.

3. 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.

   3. No.

65

4. 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.

4. (a) Yes, by improving Bolivia's balance of payments situation and by supporting U.S. exports to Bolivia.
(b) Yes
(c) Unknown
(d) No effect
(e) Yes
(f) Unknown

5. 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).

5. One of the authorized uses of the ESF dollars will be to pay for U.S. exports to Bolivia through private trade channels. The balance of payment assistance will also permit additional imports.

6. FAA Sec. 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?

6. N/A

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. 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?

1. a. Yes,
Yes.

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities?

b. No.

c. 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?	c. Yes, Yes
d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?	d. Commodities will not be granted under this program assistance.
e. FY 1990 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 592. If assistance is in the form of a cash transfer: (a) Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?	e. Sec. 575 of the FY'91 AA. (a) Yes
(b) 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 A.I.D. 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 be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?	(b) Yes, the FY'91 ESF Agreement will so provide
(c) 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?	(c) Yes, per the Agreement.
(d) 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?	(d) Congress will be so notified.

ANNEX C

AGENCY FOR INTERNATIONAL DEVELOPMENT
AID
EXECUTIVE SECRETARIAT
WASHINGTON, D.C. 20523

1991 JAN 31 P 4:55

JAN 31 1991

ASSISTANT
ADMINISTRATOR

ACTION MEMORANDUM FOR THE DEPUTY ADMINISTRATOR

FROM: AA/PPC, Reginald J. Brown RJBrown

SUBJECT: Use of ESF for Buy Back of (Bolivian) Commercial Bank Debt

Problem: The Bolivia Mission has asked the LAC Bureau to authorize an amendment of the FY 1990 Bolivia ESF Agreement to allow up to $6 million in ESF to be used to help finance a debt reduction program of Government of Bolivia (GOB) public debt held by commercial banks. The LAC Bureau proposes to do so, citing as precedent the 1990 ESF contribution to buy back of Costa Rican commercial debt.

Background: Though PPC sees the merits of the case for Bolivia and recognizes the clear similarity between the Costa Rica and Bolivia cases, we believe it important that you be: (1) involved when a precedent of this nature is being confirmed; and (2) alerted to the larger issues and potential dangers of A.I.D.'s proceeding in this direction.

The Bolivia Case.

In FY 1989, the World Bank solicited State/A.I.D. financial support for a Bolivian commercial debt reduction program. Although the United States Government was not then in a position to pledge funds, Secretary Baker urged other donors to contribute. More than $38 million was pledged to the multi-donor fund, resulting in the retirement of some $353 million at $.11 to the dollar (World Bank estimates).

A year ago, when plans for phase two of Bolivia's debt reduction program were initiated, State, Treasury and the LAC Bureau were prepared to approve the use of the FY 1990 ESF cash transfer for a U.S. Government contribution. For various reasons, the Government of Bolivia chose at that time not to use ESF for the debt reduction. Now, the GOB has asked A.I.D. to authorize use of FY 1990 ESF dollars for this purpose.

Both State and Treasury support the Government of Bolivia request, and several donors have "pledged" contributions toward the $23 million needed to retire the balance of the debt. The Swiss and Dutch have stated that their pledges are contingent on the U.S. contribution. If we are not forthcoming, the package will collapse, and chances of its being packaged again are slim.

The economic case for Bolivian debt-reduction is unambiguous. Bolivia's debt service ratio is over 50 percent of GDP (25 percent is prudent). Bolivia is adhering to its IMF stabilization program, but currently does not have the capacity to enhance its foreign exchange earnings. Therefore, without further debt reduction, balance of payments strains will continue.

Because of the widely held perception of Bolivia's economic plight, the debt "buy back" is only a part of a wider debt reduction effort supported by the industrialized countries:

- In March 1990, Bolivia received special Paris Club treatment, similar to that granted by the Group of Seven (industrialized countries) to Sub-Sahara Africa.

- Under the Enterprise for the Americas Initiative (perhaps even under Section 572), Bolivia could receive substantial reduction of U.S. Government debt.

Bolivia has been deemed by the Deputies Committee eligible for National Security Directive-18 ESF assistance in FY 1991 because of its strong implementation of its stabilization program and satisfactory performance in counter-narcotics.

The Larger Issue.

1. United States Government involvement in commercial debt reduction programs could tend to raise the value of discounted debt for: (a) the particular country involved in a debt reduction program at the time; and (b) other countries where a buy back is anticipated.

Though the rules and procedures employed by the IMF assure that banks agree to participate in debt reduction schemes and accept buy back rates before specific country funding packages are prepared, some banks ("free riders") could choose not to participate in an initial debt reduction program, hoping to benefit from the subsequent improved financial position of the host country. (In the case of Bolivia for example, commercial banks are balking at the $0.11 price, arguing that prior debt reduction programs have given Bolivia enhanced capacity to service its remaining debt.)

In a larger international context, it can be argued that a pattern of United States Government involvement in commercial debt buy backs in a region (or for certain types of countries) could raise the price of the discounted debt stock in that region or country category.

Counter:

a. Value enhanced for the particular country

The answer to the "free rider" problem is to ensure that any subsequent debt reduction programs adhere to a price not significantly different from the originally negotiated "buy back" rate. Otherwise, a dangerous precedent could be set

-69

for other debtor country debt reduction deals. Banks would have an incentive to hold back their participation in early debt reduction efforts in the hope that later efforts would be priced at a higher secondary market valuation. (Note: Given your concurrence in the Bolivia action, LAC will be asked to assure that a price not significantly different from the previously negotiated, discounted price is adhered to.)

agree

b. Secondary debt value enhanced for the region

It is possible that U.S. involvement in debt reduction programs could affect the price of a region's debt.

- The entire idea of the Baker and Brady Plans was to accept the idea that Latin debt was not worth its face value and to find extraordinary means of relieving developing countries of their debt overhang.

- Within the context of overall aid levels, the level of U.S. contribution to the Government of Bolivia for its commercial debt buy back thus far is quite small and does not represent a significant portion of total outstanding official commercial debt in any region. (A.I.D. permitted the use of $33 million in the case of Costa Rica; it proposes $6 million in the case of Bolivia.)

2. The precedent for this case was set in Costa Rica, but there was special Congressional interest in helping Costa Rica. If Congress takes note of this or future cases, it might focus on the positive aspect of debt relief for the particular country, or it might focus instead on the image that we are "bailing out the commercial banks." Coming on the heels of the S & L crisis and amidst speculation on the soundness of the U.S. banking industry, such a charge could embroil A.I.D. in a highly conflictive issue.

Counter:

a. Coming in the context of the Baker and Brady Plans, U.S. Government financial participation in orchestrated efforts to help developing countries reduce debt is widely accepted and unlikely to raise concerns in Congress. Buying Bolivian debt at a discount of $0.89 cannot be characterized as "bailing out the banks."

b. Money is fungible. Though legal, accounting and political issues lead us to track aid dollars to their end uses, our balance of payments assistance inevitably serves all the purposes for which host countries use their foreign exchange and trade assets. We obtain the primary "benefit" of our assistance at the time that host governments act on the conditions to disbursement of aid funds. We could as

70

easily be charged with "bailing out the banks" because we provide PL-480 food to a country involved in buying back its own debt, as we could for allowing that country to use ESF dollars specifically for that purpose.

c. A.I.D.'s objective in providing assistance is to support credible economic reform programs. We disburse funds against appropriate benchmarks in the implementation of these programs. Though we may be able to help to restore or maintain a country's creditworthiness by authorizing the use of ESF dollars for commercial debt reduction, that is not our primary purpose. In our defense of such efforts as this, the eligible uses of the dollars must be distinguished from the criteria for their disbursement in support of program objectives.

3. Since money is fungible, A.I.D. could easily avoid the appearance of "bailing out the banks" by simply providing funding for other eligible uses.

Counter: By our participation in commercial debt reduction schemes, we are able to leverage additional assistance from other donors. In the Bolivia case, the IBRD through its IDA facility will provide $10 million. The Swiss and Dutch governments will provide up to $10 million, but only if the United States makes its $6 million contribution. Thus, our contribution is key to leveraging additional resources. It also sends signals to both the commercial banking community and the debtors of our endorsement of debt reduction packages.

State and Treasury offices listed in clearance have reviewed and support the recommendations indicated below.

Recommendation: PPC recommends that:

(1) you concur in the proposed use of up to $6 million in ESF for the commercial debt reduction program in Bolivia.

Concur ________ Do Not Concur ________

And that

(2) you permit the regional bureaus, in consultation with Treasury and State and subject to AA/PPC clearance, to decide similar future cases on their merits, allowing the use of U.S. assistance dollars for commercial debt buy backs when it is deemed a prudent and appropriate use of assistance funds.

Concur ________ Do Not Concur ________

Date 2/7/91

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

LAC-IEE-91-13

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Bolivia
Project Title	:	Economic Stabilization and Recovery (FY 91 ESF Balance of Payments Program)
Project Number	:	511-K-602
Funding	:	$66 million (ESF)
Life of Project	:	1 year (FY 91)
IEE Prepared by	:	Lawrence Odle, 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 USAID/Bolivia
Copy to	:	Lawrence Odle, USAID/Bolivia
Copy to	:	Peter Lapera, LAC/DR/SAM
Copy to	:	Howard Clark, REA/SA
Copy to	:	IEE File

John O Wilson Date JAN 16 1991

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

12

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

INITIAL ENVIRONMENTAL EXAMINATION

Project Location:	Bolivia
Project Title:	Economic Stabilization and Recovery (FY 91 ESF Balance of Payments Program)
Project Number:	511-K-602
Funding:	$66 million (ESF)
Life of Project:	1 year (FY 91)
IEE Prepared by:	Lawrence Odle 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 1991. 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 materials 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 1991 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."

13

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 1991 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

Table 1

GENERAL CONSUMER PRICE INDEX (1980 = 100)	Index Average of Period	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%
Nov. 89	11,276,474.2	
Nov. 90	13,272,830 9	17.7%

Source: Instituto Nacional de Estadisticas.

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	1,582,700.0	55383.7%	1,724,200.0	20920.4%
1986	1,923,900.0	21.6%	1,952,900.0	13.3%
1987	2,184,300.0	13.5%	2,226,800.0	14.0%
1988	2,447,900.0	12.1%	2,473,900.0	11.1%
1989	2,949,500.0	·20.5%	2,970,000.0	20.1%
Nov. 89	2,915,700.0		2,924,300.0	
Nov. 90	3,340,000.0	14.6%	3,350,000.0	14.6%

* 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.

·16

Table 3

TOTAL LIQUIDITY AND ITS COMPONENTS

	1981	1982	1983	1984	1985	1986	1987	1988	1989	Oct. 1989	Oct. 1990 (pr)
n nominal terms (in mill.of $b)											
M1	17,153	56,855	175,125	3,295,816	198,678,345	363,303,693	808,437,000	684,769,000	706,303,000	626,084,000	830,700,000
Currency	10,852	38,897	124,757	2,870,909	173,819,231	294,372,647	397,498,000	526,082,000	500,299,000	428,805,000	-
Demand Deposits	6,301	17,658	80,368	424,607	24,859,114	68,931,046	110,939,000	158,687,000	206,004,000	197,279,000	-
Rate of Growth M1		229.7%	209.7%	1781.8%	5920.7%	82.9%	39.9%	34.7%	3.1%		32.7%
Quasi-Money	14,433	42,611	92,283	708,184	94,390,948	463,496,041	670,938,050	1,006,209,130	1,548,173,614	1,367,794,671	2,240,800,000
Local Currency	9,193	40,546	90,061	679,801	57,299,821	168,793,000	132,908,000	137,605,000	118,573,000	111,071,000	-
Foreign Exchange(1)	5,240	2,065	2,222	28,383	37,091,127	294,703,041	538,030,050	868,604,130	1,429,600,614	1,256,723,671	-
M2=Total Liquidity	31,586	99,166	267,408	4,003,708	293,069,293	826,799,734	1,179,375,050	1,690,978,130	2,254,476,614	1,993,878,671	3,071,800,000
Rate of Growth M2		214.0%	169.7%	1397.2%	7220.0%	182.1%	42.6%	43.4%	33.3%		54.0%
n real terms (in $b)(2)											
M1	18,581,850	14,783,147	10,683,291	8,828,218	6,435,278	7,090,456	8,966,827	9,939,313	8,795,037	8,085,702	9,212,190
Currency	11,755,785	10,167,449	7,610,652	7,690,756	5,630,081	5,745,155	7,010,299	7,635,997	6,229,831	5,537,898	-
Demand Deposits	6,826,765	4,618,698	3,072,640	1,137,462	805,198	1,345,300	1,956,527	2,303,317	2,565,206	2,547,804	-
Rate of Growth M1	/	-20.4%	-27.7%	-17.4%	-27.1%	10.2%	26.5%	10.8%	-11.5%		13.9%
Quasi-money	15,635,302	11,138,307	8,629,988	1,897,124	3,057,364	9,045,870	11,832,705	14,604,968	19,278,190	17,664,691	24,849,725
Local Currency	9,958,619	10,598,488	8,494,064	1,821,096	1,855,966	3,294,267	2,343,974	1,597,318	1,476,496	1,434,451	-
Foreign Exchange(1)	5,676,683	539,819	135,924	76,034	1,201,398	5,751,604	9,488,731	12,607,651	17,801,694	16,230,239	-
M2=Total Liquidity	34,216,851	25,921,455	16,312,879	10,725,341	9,492,642	16,136,326	20,795,532	24,544,279	28,073,227	25,750,393	34,061,925
Rate of Growth M2		-24.2%	-37.1%	-34.3%	-11.5%	70.0%	28.9%	18.0%	14.4%		32.3%

x) 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 (June for 1990).

Source: Banco Central de Bolivia

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	18026.9%
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%	5,394,424,000	22.5%
1989(pr)	4,214,500,000	19.3%	2,629,261,000	42.0%	6,843,761,000	27.1%
June 1989	3,692,425,000		2,179,828,000		5,872,253,000	
June 1990 (pr)	4,695,100,000	27.2%	3,124,000,000	43.3%	7,819,100,000	33.2%

(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.

Table 5

DOLLAR VALUE OF DEPOSITS IN THE BANKING SYSTEM (1)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Oct 89	Oct 90(pr)
TOTAL DEPOSITS	180.00	296.62	395.83	420.09	388.17	556.14	453.87	210.70	113.61	45.40	67.80	268.58	343.81	472.03	585.34	540.43	791.20
Demand Deposits (Local Curr.)	78.68	118.87	140.78	130.68	118.93	194.90	152.75	62.39	40.49	17.32	14.49	35.08	49.09	64.76	69.13	68.46	112.17
Time Deposits	101.32	177.75	255.05	289.41	269.24	361.24	301.12	148.31	73.12	28.16	53.41	233.50	294.72	407.27	516.21	471.97	679.03
-Local Currency	78.28	134.22	179.61	186.96	150.92	245.25	221.50	143.24	72.40	27.73	33.39	85.90	58.81	56.16	39.79	38.54	47.53
-Foreign Exchange	23.04	43.53	75.44	102.45	118.32	115.99	79.62	5.07	0.72	0.43	20.01	147.60	235.91	351.11	476.42	433.43	631.50
Rate of Growth (Tot.Dep.)		64.8%	33.4%	6.1%	-9.3%	43.3%	-18.4%	-53.6%	-46.1%	-60.0%	49.3%	295.6%	28.0%	37.3%	24.0%		46.4%

(pr) Preliminary

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

Source: Banco Central de Bolivia.

79.

Table 6

CENTRAL BANK NET INTERNATIONAL RESERVES (In Millions of US$)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Jun. 90	Oct. 90
Gross International Reserves	135.5	136.4	215.8	242.8	324.6	268.9	505.3	413.5	404.4	373.6	246.5	388.8
- Foreign Exchange	84.9	89.3	147.1	150.8	243.5	167.1	265.3	152.6	230.6	228.4	158.3	298.4
- Gold	31.2	34.2	36.1	37.0	37.9	37.8	37.8	37.9	38.0	38.0	37.9	37.9
- Other Assets*	19.4	12.9	32.6	55.0	43.2	64.0	202.2	213.0	135.8	107.2	50.3	62.2
Short Term Obligations	237.4	400.6	542.4	287.5	220.6	132.7	258.7	224.5	243.5	354.7	202.6	252.9
- Obligations with the IMF	81.6	75.5	86.1	89.2	63.7	51.3	166.8	166.2	199.2	250.4	229.5	269.8
- Other Short Term Obligations**	155.8	325.1	456.3	198.3	156.9	81.4	91.3	58.4	44.3	104.3	-27.0	-16.9
NET INTERNATIONAL RESERVES	-101.9	-264.2	-326.6	-44.7	104.0	136.2	246.6	188.9	160.9	18.9	44.0	135.6

* Includes countertrade with Argentina.
**Includes short term debt payments due.

Source: Banco Central de Bolivia.

Table 6A

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

	Jun. 90	Oct. 90	% of Total Net Int. Res.
Gross International Reserves	246.5	388.5	
- Foreign Exchange	158.3	288.4	
of which:			
- Certificates of Deposit in US$	69.6	84.3	62.2%
- Gold	37.9	37.9	
- Other Assets*	50.3	62.2	
of which:			
- Countertrade & Binational Fund with Argentina	40.2	51.6	38.1%
Short Term Obligations	202.5	252.9	
- Obligations with the IMF	229.5	269.8	
- Other Short Term Obligations**	-27.0	-16.9	
NET INTERNATIONAL RESERVES	44.0	135.6	100.3%

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

Source: Banco Central de Bolivia.

81

Table 7

CONSOLIDATED NATIONAL BUDGET								
(As % of GDP)								
	1980	1984	1985	1986	1987	1988(pr)	1989(pr)	1990(pj)
CURRENT ACCOUNT SURPLUS (DEFICIT)	-0.8	-12.3	-4.0	1.6	1.9	0.7	1.0	2.5
Capital Revenues	0.4	0.2	0.2	1.3	0.2	0.1	1.9	1.9
Capital Expenditures	7.4	4.7	4.4	5.8	6.5	8.1	8.3	7.3
CAPITAL ACCOUNT SURPLUS (DEFICIT)	-6.9	-4.5	-4.3	-4.6	-6.3	-7.1	-6.4	-5.4
TOTAL SURPLUS (DEFICIT)	-7.8	-26.5	-10.8	-3.0	-8.2	-6.4	-5.4	-2.9
Financing	7.8	26.5	10.8	3.0	8.2	6.4	5.4	2.9
External (net)	5.3	2.8	4.8	7.0	2.7	4.5	2.0	2.4
Internal (net)	2.5	23.7	6.0	-4.0	5.6	1.9	3.4	0.5

(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

Table 8

CONSOLIDATED BUDGET OF THE NON FINANCIAL PUBLIC SECTOR: 1988-1990	(in Mill. of Bs)			(In Mill. of Bs of 1980)		
	1988	1989	1990	1988	1989	1990 (Proj.)
TOTAL REVENUES	2,817.3	3,592.1	4,411.5	2,817.3	3,119.0	3,287.9
Current Revenues	2,717.5	3,355.1	4,173.2	2,717.5	2,913.2	3,110.3
Tax Revenues	753.7	896.1	1,114.6	753.7	778.1	830.7
- Internal Revenue	544.8	683.0	893.4	544.8	593.0	665.9
- Customs Revenue	208.9	213.1	221.2	208.9	185.0	164.9
Income from Hydrocarbons	1,304.6	1,501.9	1,897.3	1,304.6	1,304.1	1,414.1
- Internal Market	764.6	936.2	1,197.9	764.6	812.9	892.8
- External Market	540.0	[illegible]	699.4	540.0	491.2	521.3
Income from Other Enterprises	430.2	662.4	803.9	430.2	575.1	599.2
- Internal Market	246.7	338.4	406.9	246.7	293.8	303.3
- External Market	183.5	324.0	397.0	183.5	281.3	295.9
Other Current Revenues	229.0	294.7	357.4	229.0	255.9	266.4
Capital Revenues	99.8	237.0	238.3	99.8	205.8	177.6
TOTAL EXPENDITURES	3,489.0	4,262.4	4,770.1	3,489.0	3,701.0	3,555.2
Current Expenditures	2,638.7	3,227.7	3,868.4	2,638.7	2,802.6	2,883.1
Personal Services	1,011.2	1,330.7	1,559.9	1,011.2	1,155.4	1,162.6
Purchase of Goods and Services	738.4	991.0	1,156.0	738.4	860.5	861.6
Interest Due (External Debt)	439.3	450.3	471.9	439.3	391.0	351.7
Current Transfers	114.8	233.7	339.8	114.8	202.9	253.3
Other Expenditures	335.0	222.0	340.8	335.0	192.8	254.0
Capital Expenditures	850.3	1,034.7	901.7	850.3	898.4	672.0
CURRENT ACCOUNT SURPLUS (DEFICIT)	78.8	127.4	304.8	78.8	110.6	227.2
CAPITAL ACCOUNT SURPLUS (DEFICIT)	(750.5)	(797.7)	(663.4)	(750.5)	(692.6)	(494.4)
TOTAL SURPLUS (DEFICIT)	(671.7)	(670.3)	(358.6)	(671.7)	(582.0)	(267.3)
FINANCING	672.0	670.3	358.6	672.0	582.0	267.3
External	478.6	249.3	302.0	478.6	216.5	225.1
- Disbursements	377.2	358.9	495.3	377.2	311.6	369.2
- Amortizations	(124.1)	(153.4)	(187.7)	(124.1)	(133.2)	(139.9)
- Interests not Paid	303.0	288.8	281.6	303.0	250.8	209.9
- Arrears	(52.0)	(15.2)	(8.2)	(52.0)	(13.2)	(6.1)
- Arrears from Argentina	(25.5)	-229.8	(146.3)	(25.5)	(199.5)	(109.0)
- Brazilian Debt due Buy Back	0.0	0.0	(132.7)	0.0	0.0	(90.9)
Internal	193.4	421.0	56.6	193.4	365.5	42.2
- Central Bank	345.8	592.9	15.4	345.8	514.8	11.5
- Foreign Oil Companies	(157.6)	(233.3)	(18.7)	(167.6)	(202.6)	(13.9)
- Floating Debt	(9.0)	50.9	74.6	(9.0)	44.2	55.6
- Other	14.2	10.5	(14.7)	14.2	9.1	(11.0)

SOURCE: Ministry of Finance and UDAPE.
Summarized by OAntezana

93

Table 9

NON-TRADITIONAL EXPORTS (Mill US$)													PROJECTED			
	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986(1)	1987	1988	1989(p)	1990(2)	1991(3)
Timber	8.21	7.69	9.58	16.90	23.85	12.74	9.92	4.98	3.14	4.35	15.08	22.90	15.60	32.20	28.00	28.00
Wood Products	1.70	0.99	2.92	4.36	8.83	5.52	4.71	2.29	2.92	1.44	5.11	8.22	8.50	12.00	16.25	20.00
Livestock	2.40	2.15	2.91	2.16	1.31	0.95	0.59	1.25	1.58	1.17	13.42	6.75	0.51	6.20	26.00	18.00
Coffee	13.12	17.18	16.71	19.82	20.64	15.82	15.77	13.07	6.56	13.94	13.28	11.48	16.90	12.70	14.50	18.00
Soybeans & Subproducts	0.00	0.00	0.00	2.80	6.91	5.33	8.02	4.69	2.29	8.33	19.45	18.29	20.20	54.30	49.25	85.00
Sugar & Subproducts	42.13	25.99	15.05	30.17	50.51	5.40	8.85	12.42	6.56	1.75	4.85	8.57	6.20	19.30	26.00	25.00
Brazil Nuts	2.58	2.60	8.16	2.81	2.77	2.72	2.90	1.85	2.22	1.47	3.54	6.88	5.50	11.10	12.00	15.00
Cacao & Subproducts	0.88	1.26	1.75	1.73	1.76	0.60	0.46	0.41	0.28	0.99	3.56	0.99	2.00	3.00	3.50	8.00
Leather & Subproducts	0.99	2.83	4.86	7.99	4.88	3.08	2.08	8.85	0.82	1.33	6.77	8.53	19.50	17.70	23.00	25.00
Rubber & Subproducts	2.35	2.23	2.08	1.06	4.79	3.44	4.12	2.73	0.73	0.52	3.76	1.85	2.00	1.40	2.00	8.00
Cotton & Subproducts	12.80	13.78	14.70	10.58	0.95	2.95	8.07	2.48	0.51	0.71	4.68	6.79	2.10	7.00	8.00	9.00
Tin-side Alloys	0.00	1.08	0.00	12.72	16.64	13.09	8.50	7.73	4.31	4.18	3.83	1.76	2.80	8.00	6.80	8.00
Others	3.86	10.43	20.48	12.83	19.39	27.37	16.58	2.82	1.91	0.98	6.55	7.06	11.60	22.44	25.00	30.00
TOTAL	90.39	89.03	96.28	126.93	163.23	99.09	87.97	57.57	33.83	38.16	103.88	110.07	113.21	204.34	240.00	261.00

(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 rate, which all but eliminated all profit from legal exports during 1982-1985.

(2) Mission estimates based on information on the first three quarters of 1990.

(3) 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, credit, and technical assistance for the export sector.

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

84

Table 10

GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY (In 1980 Bolivianos)											
ECONOMIC ACTIVITY	1980	1981	1982	1983	1984	1985(p)	1986(p)	1987(p)	1988(p)	1989(p)	1990(pj)
A. INDUSTRIES	106,050	106,450	103,133	94,971	94,420	93,161	90,600	92,178	95,665	98,246	101,287
1. Agriculture, Forestry & Fishing	22,563	22,354	23,900	19,981	24,552	26,789	25,534	25,483	25,708	24,894	24,507
-Agricultural Products	15,727	17,257	16,408	14,506	19,101	21,088	20,031	19,869	19,896	18,946	18,359
-Animal Products	5,893	4,216	4,850	4,814	4,796	5,046	4,829	4,924	5,157	5,261	5,429
-Forestry & Fishing	943	881	642	661	655	655	674	690	655	687	719
2. Mining & Quarry Production	19,407	20,139	19,526	18,614	16,335	14,284	12,062	12,255	14,820	17,177	18,670
-Crude Oil & Natural Gas	6,728	7,072	7,476	6,838	6,869	6,735	6,468	6,564	6,786	7,036	7,536
-Metallic & Non-Metallic Minerals	12,679	13,067	12,050	11,776	9,466	7,549	5,594	5,691	8,034	10,141	11,135
3. Manufacturing	17,974	16,581	14,531	13,863	11,925	10,815	11,038	11,422	11,873	12,216	12,692
4. Electricity, Gas & Water	806	907	930	938	938	948	987	925	964	1,016	1,077
5. Construction & Public Works	4,521	4,058	3,698	3,639	3,555	3,168	2,918	2,895	3,246	3,474	3,717
6. Commerce	13,261	14,418	13,464	11,796	11,652	12,110	12,895	12,534	12,990	12,953	13,108
7. Transportation, Storage & Communications	7,321	8,174	7,799	7,059	7,204	7,337	7,557	7,971	8,026	8,178	8,415
8. Financial Establishments, Insurance, Real Estate, & Services to Companies	17,248	16,829	16,308	15,964	15,454	15,102	14,972	15,063	15,286	15,813	16,189
-Financial Services to Companies	7,189	6,704	6,126	5,629	5,068	4,716	4,480	4,573	4,481	4,538	4,616
-Housing	10,059	10,125	10,182	10,335	10,386	10,326	10,492	10,490	10,805	11,075	11,573
9. Social & Personal Services	4,881	4,857	4,710	4,710	4,239	3,942	3,904	3,922	4,020	4,081	4,216
-Banking Services (Imputed)	(1,932)	(1,867)	(1,733)	(1,593)	(1,434)	(1,334)	(1,267)	(1,294)	(1,268)	(1,256)	(1,305)
B. PUBLIC ADMINISTRATION SERVICES	12,940	13,193	13,749	14,836	15,149	15,643	14,646	15,171	15,022	15,223	15,527
C. DOMESTIC SERVICES	668	687	702	709	710	714	719	726	746	753	769
TOTAL: At Producer Prices	119,658	120,330	117,584	110,516	110,279	109,518	105,965	108,075	111,433	114,222	117,583
Indirect Taxes on Imports	3,288	3,753	1,090	427	332	927	1,246	1,404	1,110	1,071	1,117
TOTAL: At Prices to End Users	122,946	124,083	118,674	110,943	110,611	110,445	107,211	109,479	112,543	115,293	118,700
GDP % GROWTH RATE		0.9%	-4.4%	-6.5%	-0.3%	-0.2%	-2.9%	2.1%	2.8%	2.4%	3.0%

(p) Preliminary.
(pj)Projected

SOURCE: 1980-1982: Central Bank of Bolivia, National Accounts Department.
1983-1989: National Institute of Statistics.

Table 11

EXTERNAL PUBLIC SECTOR DEBT OUTSTANDING TO JUNE 1990 (Mill of US$)	To June 1990
MULTILATERAL	1,536
Inter American Development Bank (IDB)	841
International Development Assistance (IDA)	341
International Bank for Reconstruction and Development (IBRD)	194
Corporacion Andina de Fomento (CAF)	96
Other	64
BILATERAL	1,581
United States	368
Other	1,213
PRIVATE	347
TOTAL	3,464

Source: Central Bank of Bolivia

- 86'

Table 12

DEBT SERVICE PAYMENTS IN 1989, 1990 AND 1991 (In millions of US Dollars)	1989	1990(e)	1991(p)
Interest Paid or to be Paid	131.1	157.2	176.7
Interest not Paid (1)	130.5	93.6	67.6
Total Interest	261.6	250.8	244.3
Amortization Paid or to be Paid	113.5	105.7	127.0
Amortization not Paid (1)	73.4	121.3	114.2
Total Amortization	186.9	227.0	241.2
Total Debt Service to be Paid	244.6	262.9	303.7
Total Debt Service that was (& hopefully) will be rescheduled	203.9	214.9	181.8
Total Debt Service Theoretically Due	448.5	477.8	485.5
Exports of Goods and Services	868.6	903.8	924.1
Total Debt Service as % of exports of goods and services			
Before Rescheduling	51.6%	52.9%	52.5%
After Rescheduling	28.2%	29.1%	32.9%

(1) Includes amounts previously rescheduled at Paris Club meetings as well as those that the GOB hopes to reschedule in 1989 and 1990.

(pl)preliminary
(e) estimated
(p)projected

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

Table 13

BOLIVIA: SUMMARY OF BALANCE OF PAYMENTS FOR 1980 – 1991
(In millions of US$)

	1980	1981	1982	1983	1984	1985(p)	1986(p)	1987(p)	1988(p)	1989(e)	USAID Proj. 1990(e)	USAID Proj. 1991(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	-168.2	-275.1
A. Goods, Services, and Interest (1+2+3)	-66.8	-505.3	-221.3	-244.3	-216.3	-361.9	-448.5	-570.1	-330.4	-169.9	-318.2	-425.1
1. Merchandise	263.8	-63.0	250.2	166.0	232.9	71.5	-124.1	-303.4	-48.2	103.6	-64.7	-170.2
Exports FOB	942.2	912.4	827.7	755.1	724.5	623.4	549.9	472.6	542.4	723.5	805.3	820.8
Imports CIF (legitimate)	-678.4	-975.4	-577.5	-589.1	-491.6	-551.9	-674.0	-776.0	-590.6	-619.9	-730.0	-836.0
Smuggled Imports	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-140.0	-155.0
2. Services	-63.8	-78.9	-57.7	-48.0	-80.2	-60.0	-10.3	-18.1	-18.0	-19.0	-19.9	-20.0
Exports	89.3	94.2	83.5	104.5	95.0	98.0	156.1	129.3	130.7	145.1	147.7	153.0
Imports	-153.1	-173.1	-141.2	-152.5	-175.2	-158.0	-166.4	-147.4	-148.7	-164.1	-167.6	-173.0
3. Earnings from Interest	-266.8	-363.4	-413.8	-362.3	-369.0	-373.4	-314.1	-248.6	-264.2	-254.5	-233.6	-234.9
i) Received	14.2	15.0	7.2	39.4	28.5	16.0	23.4	18.5	15.8	22.1	15.1	22.0
ii) Due	-281.0	-378.4	-421.0	-401.7	-397.5	-389.4	-337.5	-267.1	-280.0	-276.6	-248.7	-256.9
- Interest Paid on Medium and Long Term External Public Debt	-163.8	-186.2	-177.3	-228.5	-189.6	-88.8	-65.0	-85.6	-57.4	-81.0	-109.2	-184.2
- Other Interest Paid	-97.7	-145.0	-135.6	-87.8	-102.5	-73.8	-62.9	-47.5	-36.0	-50.1	-14.7	-14.9
- Interest not Paid	-4.5	-17.2	-84.6	-25.6	-69.2	-174.0	-170.4	-119.9	-155.0	-130.5 (1)	-102.2 (1)	-71.8
- Other Income	-15.0	-30.0	-23.5	-59.8	-36.2	-52.8	-39.2	-14.1	-31.6	-15.0	-22.6	-16.0
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	150.0
II. CAPITAL ACCOUNT	47.6	55.0	-324.0	-469.2	5.2	-210.3	1.5	17.4	42.3	-18.1	112.4	113.8
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	35.0
B. Other Capital	3.7	-20.6	-355.0	-476.1	-1.8	-220.3	-11.1	-4.6	12.3	-53.1	77.4	78.8
i) Medium and Long-Term Capital	48.9	68.3	-207.5	-362.2	-182.3	-244.8	-118.4	-83.6	45.2	1.8	59.5	78.8
- Disbursements on Medium and Long-Term External Public Debt	265.3	326.9	210.9	97.9	159.8	108.7	230.1	207.9	318.8	334.3	294.6	320.0
- Amortizations Paid on Medium and Long-Term External Public Debt	-126.3	-108.8	-121.0	-101.4	-141.9	-159.3	-120.2	-76.6	-84.8	-113.5	-104.4	-127.0
- Amortizations not Paid	-59.4	-140.4	-267.8	-353.1	-192.4	-184.7	-204.1	-203.9	-90.8	-73.4	-134.4 (2)	-114.2
- Other Capital (Net)	-30.7	-9.4	-29.6	-5.6	-7.8	-9.5	-24.2	-11.0	-98.0 (3)	-145.6 (3)	3.7	0.3
ii) Short-Term Capital (Net)(5)	-45.2	-88.9	-147.5	-113.9	180.5	24.5	107.3	79.0	-32.9 (4)	-54.9	17.9	0.0
III. ERRORS AND OMISSIONS(6)	-404.5	-196.4	43.4	116.7	-5.1	180.5	112.0	60.3	-81.4 (4)	-194.5 (4)	71.8	0.0
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	16.0	-161.3

Table 13 (Cont'd)

BOLIVIA: SUMMARY OF BALANCE OF PAYMENTS FOR 1980 - 1991 (In millions of US$)	1980	1981	1982	1983	1984	1985(p)	1986(p)	1987(p)	1988(p)	1989(e)	USAID Proj. 1990(e)	USAID Proj 1991(e)
A. COUNTERPART ITEMS	8.6	9.1	1.9	0.9	0.9	9.9	0.0	0.0	0.0	0.0	0.0	0.0
B. EXTRAORDINARY FINANCING	368.9	425.7	352.4	708.4	261.6	358.7	346.4	288.5	141.0 (5)	86.4 (5)	138.0	164.4
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	-154.0	-3.1

(p) Preliminary.
(e) Estimated by Central Bank.

(1) Includes Paris II and Paris III debt rescheduling and increase in arrears.
(2) Includes Paris II and Paris III renegotiations which increases amortizations not paid.
(3) Includes payments to the foreign oil companies, contributions to international organizations, and others.
(4) Includes "Errors and Omissions" and informal sector earnings.
(5) Includes Paris I and II debt reschedulings, increase in Argentina's arrears for Bolivia's gas deliveries.

SOURCE: For 1980-1991, Central Bank of Bolivia.

Table 14

ECONOMIC RECOVERY PROGRAM FOR 1991
COUNTERPART FOR PUBLIC SECTOR PROJECTS
(In US$000)

1. GOB Administrative Costs			2,694
a) SAFCO/ILACO	*(WB)*	984	
b) EMSO	*(WB)*	300	
c) National Institute of Statistics		1,110	
d) DIFAD Operational Costs		300	
2. Social Investment Fund	*(WB)*		4,000
3. Regional Development Fund (PRODERSA) (IDB-JAPAN)			3,000
4. Road Infrastructure			11,556
Southern District			
Maintenance Project	*(CAF)*	142	
Sta. Cruz-Trinidad	*(FONPLATA)*	2,030	
Patacamaya-Tambo Quemado	*(IDB_JAPAN)*	1,500	
Totacoa-Pte.Mendez	*(FONPLATA)*	1,700	
Palmar Grande-Yacuiba	*(FONPLATA)*	1,500	
Rural Roads: Yungas-La Paz	*(JAPAN)*	200	
Confital-Caihuasi		4,134	
Feasibility Study: Oruro-Pisiga		200	
Road Project: North Chuquisaca		150	
5. Integrated Development			2,018
a) Eastern Lowlands Development	*(WB)*	1,500	
b) North Potosi Development		518	
6. Health			1,000
a) Integrated Health Program	*(WB)*	900	
b) Service Network (Chuquisaca-Potosi-Tarija)	*(IDB)*	100	
7. Mining			732
GEOBOL	*(USGS/IDB)*	732	
TOTAL			25,000

90