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HISTORY OF U.S. ECONOMIC ASSISTANCE
TO BOLIVIA
1892-1980

May 28, 1980

Prepared by Margaret Kranz for the Agency for International
Development under Purchase Order AID/OTR-147-80-31.

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NOTE

This brief history was prepared to serve as background for interviews by AID interviewers of people involved with the aid program in Bolivia over the years. The "oral history" obtained from these interviews will be used by the interviewers to supplement and revise this paper to produce a more complete history.

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PART I

WORLD WAR II AND EARLY SERVICIO PERIOD (1942-1953)

A. Initiation of U.S. Economic Assistance: U.S. economic assistance to Bolivia was initiated in 1942 as one of the cooperative programs developed with the Latin American nations during World War II when the United States enlisted the support of those nations against the Axis powers and their cooperation in marshaling the foodstuffs and strategic materials needed to win the war.

1. Arrangements for Production and Purchase of Strategic Materials: Commodities of strategic interest in Bolivia were primarily tin, tungsten, rubber and quinine. In order to develop them three institutions were formed:

- (a) the Metal Reserve to provide loans, machinery, and U.S. technicians to increase productivity of marginal mining operations.
- (b) a Cinchona Procurement Office to improve the production and exportation of quinine. Owing to the inaccessibility in the northern jungle of cinchona trees, equipment pools, purchasing offices and buying agencies had to be set up and airports constructed.
- (c) the Rubber Reserve to encourage the gathering of natural rubber along the Amazonian headwaters of northern Bolivia, supplying loan funds, equipment, and technical assistance to private producers.

The Rubber Reserve serves as an example of how these institutions became operational. On July 15, 1942, the American Ambassador in Bolivia sent a note to the Minister of Foreign Affairs proposing that the Rubber

Reserve Company, a U.S. agency, set up a fund of \$2,125,000 for the purpose of increasing wild rubber production in Bolivia. U.S. technicians would be provided to assist in rubber development. In exchange, Bolivia would agree to allow only the Company to export rubber from Bolivia.^{2/} To improve health conditions in the rubber producing areas, the U.S. offered the services of the Health and Sanitation Division of the Office of the Coordinator of Inter-American Affairs. The Bolivians accepted this proposal, and an agreement was executed between the Rubber Reserve Company and the Government of Bolivia on July 15, 1942 under which the Reserve would purchase virtually all of the rubber produced in Bolivia. Similar purchasing arrangements were made for tin and tungsten.

2. Economic Cooperation - the Bohan Mission: On August 1, 1941, the Department of State sent a memorandum to the Bolivian Ambassador proposing three development programs to be included in a "long-term plan of collaboration to foster continued mutually beneficial economic relations between the United States and Bolivia and to develop the national economy and national resources of Bolivia."^{3/} The programs proposed were: (a) the development of communications, primarily highways; (b) agricultural diversification to increase self-sufficiency and develop tropical products for export; and (c) the stimulation of the production of tin, tungsten and certain other minerals by small miners. The U.S. offered to provide experts to carry out surveys in these fields and to extend financial and technical assistance for projects designed to carry out survey recommendations. Furthermore, the U.S. was prepared to consider cooperation with the Government of Bolivia in the stabilization of the Bolivian currency.

Following a positive response from the Bolivians, the United States Economic Mission to Bolivia was formed in December 1941. It was headed by

of years.

Pointing to the overdependence of the country on mineral exports as a source of income and the instability of the economy caused by fluctuations in that income, the Mission emphasized the need for a more diversified economy. The Mission concentrated its investigation on the possibilities of commercial production in Bolivia of the agricultural products then being imported (cotton, wheat, sugar, livestock and meat, wool, lumber, rice, edible fats and oils, and barley) and expanding the production of other agricultural products for export (Brazil nuts, rubber, hides, quinine). The other major focus of the study was on the development of petroleum.

After studying various regions of the country, the Mission came up with recommendations for a long-range development program involving (a) the designing of a national highway system which would link the most promising agricultural production areas with the centers of consumption; (b), a wide-ranging program to develop the production of sugar, rice, lumber, cattle, wheat and other cereals, dairy products, edible fats and oils, cotton and wool, including the establishment of experiment stations, agricultural extension services, processing plants, marketing facilities, credit agencies, and other facilities needed to promote agricultural expansion; (c) studies and construction of irrigation works in selected areas; and (d) development of proven oil fields, exploratory work in new areas, construction of transportation facilities for petroleum production, and the development of foreign markets. The Mission concluded that the expansion of agricultural production would depend on the extent to which people could be settled in the lowland areas of the country. The estimated total cost of the long-range program was \$88,000,000.

Given the limited financial resources of Bolivia and war constraints,

the Mission recommended that the program be carried out in stages. They proposed a first-stage program plan having the goal of making Bolivia virtually self-sufficient in sugar, rice, cattle, hardwoods, and petroleum products and thereby saving \$3,000,000 to \$4,000,000 in annual foreign exchange expenditures. The Mission urged that initial agricultural development efforts be concentrated in the most promising area for large-scale production - the Santa Cruz area - and that first priority be given to the construction of a highway between Cochabamba and Santa Cruz and to the petroleum development plan. The cost of the first stage was estimated as follows:

Roads	\$12,000,000
Agriculture	6,625,000
Petroleum	5,500,000
Mining	1,000,000
Health & Sanitation	<u>1,000,000</u>
Total	\$26,125,000

The Mission proposed that the financing be provided as follows:

Export-Import Bank credits	\$15,500,000
Rubber Production Fund of Rubber Reserve Co.	2,125,000
Sanitation Fund - Office of Coordinator of Inter-American Affairs	1,000,000
Highway Fund - Bolivian Government	1,500,000
Capitalization of a Bolivian Development Corporation (CBF) - Bolivian Government	<u>9,000,000</u>
Total	\$29,135,000 *

*The margin of \$3,000,000 was included for the CBF to assure adequate working capital and sufficient funds to repay obligations. The CBF

was to implement the programs under the joint administration of directors nominated by the Bolivian Government and the Export-Import Bank.

3. Implementation of the Bohan Mission Recommendations: Two of the key elements of the Mission program had apparently been agreed to long before the Mission report was issued. In January 1942, the U.S. had informed the Government of Bolivia that the Export-Import Bank had agreed to extend credits of \$5,500,000 for petroleum development and \$10,000,000 for agriculture, transportation and mining. Simultaneously, the two governments agreed to establish the Bolivian Development Corporation (CBF). (These agreements apparently were reached during discussions between representatives of the two governments at the time of the Third Meeting of the Foreign Ministers of the American Republics at Rio de Janeiro, January 15-18, 1942, at which the Foreign Ministers approved a resolution severing relations with the Axis Powers.)^{5/} In a letter of August 14, 1942 from Secretary of State Cordell Hull to the Bolivian Ministers of Finance and Economy, the Mission's program recommendations were endorsed as well as the proposed level and sources of financing of the first stage. The letter indicated that the United States was prepared to give favorable consideration to additional financing for highways if the funds allotted for highway development in the first stage were not sufficient and to the extension of up to \$15,000,000 in credits to finance the second stage of the long-term program once the completion of the first stage was assured. The letter also alluded to the offer of a \$2,000,000 stabilization fund from the U.S. Treasury and \$2,000,000 in short-term credits from the Export-Import Bank as well as arrangements for the purchase of rubber by the Rubber Reserve Corporation, purchases of tin and tungsten by the Metals Reserve Company and credits of \$1,300,000 from the Company and the Export-Import Bank for mineral

development.^{6/}

The development plan outlined in the Bohan report was basically the plan followed by the Government of Bolivia during the ensuing years with agricultural development initially focussed on commercial production in the Santa Cruz area, the building of highways to connect the frontier regions with the centers of population, and the development of petroleum reserves. With regard to U.S. assistance, according to one source the report was the "Bible" for the U.S. advisors who served in Bolivia in the forties and fifties.

Except for the Export Import Bank loans, which were channeled through the CBF, technical assistance was the principal category of U.S. assistance from 1942-1953. The total amount eventually loaned by the Export Import Bank for the construction of the Cochabamba-Santa Cruz highway was \$34,400,000 in addition to a loan of \$8,500,000 for petroleum equipment. The obligations for technical assistance during this period totaled \$5.9 million.

B. The Servicios: In Bolivia, as in the other Latin American countries, technical cooperation agreements were executed to serve as a basis for initiating technical assistance programs. The first of these in Bolivia, as in most of the other countries, was a Health and Sanitation Agreement executed by an Exchange of Notes July 15 and 16, 1942. The agreement indicated that the Office of the Coordinator of Inter-American Affairs was prepared to send experts to Bolivia and provide a grant of \$1,000,000. The field party of experts would serve under a Chief Medical Officer, and services would be provided in general disease control, malaria control, yellow fever control, care of lepers and environmental sanitation. An Agricultural Program Agreement was signed by the U.S. and Bolivia on

April 6, 1943, and an Education Program Agreement on September 7, 1944. In order to carry out technical assistance programs, a mechanism was devised early in the forties by the Institute of Inter-American Affairs called the servicio, a semi-autonomous agency jointly funded by the two cooperating governments and staffed by U.S. and host country technicians. The first servicio established in Bolivia was the Health Servicio in 1942. Three other Servicios were subsequently formed - an Education Servicio in 1944, an Agriculture Servicio in 1948, and a Roads Servicio in 1955. The Servicios were used in the forties and fifties and were phased out in the sixties. During the forties the Health Servicio (SCISP) provided assistance in malaria control, medical care for rubber workers, the construction of small hospitals and laboratories, and the training of public health personnel. The Education Servicio (SCIDE) worked exclusively in the field of rural education. The Agriculture Servicio (SAI) focussed primarily on research activities in the first experiment stations established by the Bolivians and on the development of an agricultural extension service.

FOOTNOTES

1. United States Operations Mission to Bolivia, Point Four in Bolivia, 1942-60, December 1960, p. 6.
2. Department of State, Foreign Relations, 1942, Vol V, p. 574.
3. Department of State, Foreign Relations, 1941, Vol VI, p. 436.
4. Bohan, Merwin L. Economic Mission to Bolivia Report, August 10, 1942, p. 4.
5. Department of State, Foreign Relations, 1942, Vol V, pp. 603-604.
6. Ibid. pp. 603-607.

PART II

THE BOLIVIAN REVOLUTION OF 1952 -
U.S. ASSISTANCE - 1953-60

A. The Bolivian Revolution and its Aftermath: The 1952 Revolution took place when the ruling military junta was violently overthrown and the Movimiento Nacionalista Revolucionario (MNR) took over the government and installed Victor Paz Estenssoro (who had won a substantial plurality in the 1951 elections) as President. The revolution resulted in drastic changes in the social structure of Bolivia. Far-reaching agrarian reform measures were enacted to abolish the existing system of feudal agriculture and restore ownership to the Indians. The three large private mining companies were nationalized and incorporated into the Government-run Corporacion Minera de Bolivia (COMIBOL). The army was dissolved and reorganized. The MNR remained in power for 12 years with Paz Estenssoro serving his first term as President from 1952-56 followed by Hernan Siles Zuazo from 1956-60 and Paz Estenssoro returning for a second term in 1960-64.

A useful overview of the MNR period and U.S. assistance during that period is given in two essays in a book entitled Beyond the Revolution, Bolivia Since 1952, edited by James M. Malloy and Richard S. Thorn and published in 1971. The first is an essay by Cole Blasler: The United States and the Revolution, and the second article is The Economic Transformation by Richard S. Thorn. A consolidation of their characterizations of the three MNR government periods from 1952 through 1964 is as follows.^{1/}

The first phase was during the first term of Victor Paz Estenssoro and, in the United States, the first term of President Eisenhower, from 1952-56. It was during this period that the major reforms of the Revolution

were promulgated. The principal problems were preventing famine, economic chaos and political disorder. U.S. assistance concentrated on famine relief. The second phase was during the Presidency of Siles from 1956-60 and President Eisenhower's second term. The major problem was run-away inflation, and a major event was the introduction of a stabilization program by Siles in December 1956. U.S. assistance focussed on support of economic stabilization objectives. The third phase was during the second term of Paz Estenssoro, 1960-64, when more attention was devoted to economic development and when substantially higher levels of U.S. assistance were made available following the inauguration of President Kennedy and the launching of the Alliance for Progress.

The immediate economic impact of the revolution was severe. Production on the large-scale, highly productive commercial farms was reduced to subsistence levels. There was a serious decline in production in mining, the mainstay of the economy, and the large mines administered by COMIBOL became a burden to the government due to substantial losses every year and high costs of operation.

B. Initiation of U.S. Emergency Economic Assistance: Shortly after the revolution the economy deteriorated so rapidly that by 1953 there was a threat of famine. In July 1953, Milton Eisenhower visited Bolivia during a fact-finding trip to South America for his brother, the President. According to several sources his favorable impressions of the MNR government and his recommendations to the President following his trip were instrumental in the initiation by the United States Government of large-scale economic assistance to Bolivia - the first economic assistance program in the Western Hemisphere. An Economic Assistance Agreement was executed by the United States and Bolivia on November 6, 1953.

The first phase of U.S. assistance was the financing of essential food imports, aviation gasoline, machinery and equipment which were sold to local importing firms for sale. Payment was made by the firms in local currency which was deposited in a special counterpart account to be spent for purposes mutually agreed upon by the two governments. Rampant inflation subsequently led to a situation so desperate by 1956 that the U.S. began to stress the need for a stabilization program which was put into effect by President Siles late in 1956. The U.S. contributed \$17.5 million and the IMF \$7.5 million to assist this effort. Beginning in 1957, in addition to the commodity import program, the U.S. initiated direct cash grants to the Bolivian Government. The dollars were "bought" by the Central Bank with Bolivianos which were also deposited in the counterpart account. U.S. economic assistance, all on a grant basis, totaled \$127 million from 1954 through 1960.^{3/}

C. Continuation of Technical Cooperation Programs: Technical cooperation activities continued throughout this period under the rubric of "Point Four". This term originated from the fourth point of President Truman's Inaugural Address of January 20, 1949: "We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas... we should make available to peace-loving peoples the benefits of our store of technical knowledge in order to help them realize their aspirations for a better life." To carry out the technical assistance program Congress enacted The Act for International Development on June 15, 1950. Throughout Latin America, the term "Point Four" - Punto Cuarto in Spanish - has remained a positive symbol of U.S. assistance and is still referred to today with nostalgia as frequently are the servicios. Under the aegis of the

U.S. Technical Cooperation Administration, general agreements for technical cooperation were executed in each host country. The general agreement in Bolivia was signed on March 14, 1951. From 1952 through 1960, \$24,887,000 was obligated for technical cooperation projects.

(See Appendix to Part II: Tables A-1, A-II, and A-III for a summary of project expenditures for economic and technical assistance during the period 1952-60.)^{4/}

D. Economic Development and the Role of U.S. Assistance: As indicated previously the Bohan report served as a basic guideline for economic development in Bolivia. In 1950, the United Nations Keanleyside Mission to Bolivia endorsed the Bohan approach to the development of the country. A memorandum presented by the Bolivian Government to Milton Eisenhower during his visit in 1953 described a development strategy which synthesized the Bohan and Keanleyside studies. Subsequently, the Bohan strategy was incorporated into the MNR's economic development program, summarized in another memorandum prepared by the Ministry of Foreign Affairs of Bolivia in December 1954.^{5/}

Prior to the Revolution very little progress had been made toward achieving the objectives of the Bohan plan. For instance, the project of highest priority, the Cochabamba-Santa Cruz highway, which the Bohan Mission expected could be completed by 1946, was not finished until 1953. Under the MNR regime, the pace of implementation was stepped up resulting in substantial progress in achieving agricultural and petroleum production goals and in the development of the Santa Cruz region. U.S. assistance played a significant role in this development effort. (The following description of the accomplishments of U.S. assistance was extracted primarily from the USOM report of 1960 entitled Point Four in Bolivia.)

1. Agriculture: During this period the Agriculture Servicio (SAI) continued the agricultural research activities initiated in the forties. By 1960, seven agricultural experiment stations, located in the several characteristic regions of the country, had been established by the Government of Bolivia. As a result of SAI research in new varieties of seeds and new planting, cultivating and harvesting techniques, the production of rice, sugar cane, corn and other crops increased. Bolivia became self-sufficient in rice and sugar, and the rapid increase in the production of Cuban yellow corn, introduced by the Servicio in 1953, provided a solid base for the development of a livestock industry. Livestock experiment stations contributed to the improvement of beef cattle and an increase in the supply of milk. A pasteurization and powdered milk plant was constructed in Cochabamba which began operation in mid-1960. The agricultural extension service, operating through 35 provincial offices, worked closely with the experiment stations in introducing improved farming practices.

Beginning in 1954, SAI activities were greatly expanded with the arrival of \$7,550,000 worth of agricultural equipment, tools, fertilizers and insecticides under the economic assistance program. SAI established machinery pools in the principal agricultural areas and distributed the other agricultural inputs for sale to farmers. In collaboration with the National Agricultural Bank, the Servicio instituted a nation-wide program of supervised credit under a contract with International Development Services executed in 1954. By 1960, the credit program had made 9,000 loans to peasant farms, medium-size agriculturists, cooperatives and colonization groups. The program materially contributed to the increase in the production of many crops as well as to milk and meat production.

Many Servicio projects received financial support from counterpart funds generated by economic assistance. Among the projects financed from this source were: the construction of an agricultural school at Muyurina (near Santa Cruz) and some experiment station facilities, the purchase of breeding stock for livestock development projects, the capitalization of the supervised credit program and the financing of special projects in wheat and potato production, irrigation works, milk plant construction and sugar and rice marketing programs.

By 1960, the Ministry of Agriculture had agreed to take over in 1961 the nationwide agricultural extension service and the supervised credit program was being operated largely by Bolivian personnel with limited U.S. technical assistance.

2. Development of Lowland Areas: One of the most significant accomplishments of the MNR and successes of U.S. assistance was the opening up of the lowland areas of Bolivia, beginning with the Santa Cruz region. After the 310-mile Cochabamba-Santa Cruz highway was completed, the government began to push the development of the Santa Cruz area, followed later by the Beni region. U.S. assistance in the construction of penetration roads, land clearing and agricultural credit played a crucial role in the area in the years immediately following the Revolution. One-third of the credit granted during a period of six years went to the area.

Among the six colonization groups in the Santa Cruz area, U.S. technical cooperation and counterpart funds administered by the CBF assisted in the establishment of a Japanese colony, two Okinawan groups, and a Bolivian settlement at Aroma. The Health Servicio built health centers and potable water supply and sewerage systems. Land was cleared, basic facilities constructed, and seeds provided to enable the colonists to begin

crop production. By 1960, over 31,000 acres of jungle had been cleared. Subsequent assistance was provided by the Agriculture Servicio in farming practices, crop loans, machinery rental and sales, marketing and formation of cooperatives. U.S. economic aid funds financed the machinery and equipment for the Guabira sugar mill established by the CBF in 1954, and the capacity of the privately owned La Belgica sugar mill was expanded with a loan from the U.S. Development Loan Fund in 1959.

In addition to opening up the Santa Cruz region, penetration roads were constructed from San Pedro to Caranavi and from Caranavi to Alcoche, opening new lands in the Department of La Paz. In 1959, the CBF received a grant of land in the Alto Beni region for large-scale colonization. A road project in this region was financed from counterpart funds.

3. Transportation: Assistance in road construction and maintenance was provided largely via a Roads Servicio established in 1955. By 1960, 3,385 kilometers of inter-city roads and farm-to-market roads and 687 kilometers of secondary roads had been improved and maintained. In addition, \$4,000,000 worth of road equipment was imported under the economic assistance program. The Servicio trained Bolivian engineers and technicians in all phases of road building and maintenance including 40 trained abroad. The Servicio was transferred to the Ministry of Public Works in 1961. It has been cited as one of the outstanding successes of the U.S. assistance program in Bolivia.

The USOM provided assistance in the field of aviation through technical assistance and training. Economic aid funds were used to purchase equipment for the national maintenance center in Cochabamba, and counterpart funds financed airport studies and the payment of local currency costs of the El Alto airport construction with dollar costs being mainly financed by

a \$1,500,000 loan from the Development Loan Fund.

4. Health: Several successful disease eradication campaigns were completed by the Health Servicio in 1959. 85% of the population had been vaccinated against smallpox. A yaws campaign had substantially reduced the incidence of that disease in the Yungas provinces. In 1960, the anti-malaria campaign was in the second phase of operation. The Servicio also assisted in the construction, equipping and training of staff for a nationwide system of health facilities. 16 health centers, fully staffed and supervised by Bolivian personnel, were transferred in 1960 from the Servicio to direct operation by the Ministry of Health. The Servicio was also involved in an occupational health program for miners and industrial workers, environmental sanitation projects, and the construction of a number of medical facilities some of which were financed with counterpart funds: the Central Laboratory in Cochabamba; the National Bacteriology Institute in La Paz; the Animal Vaccine Laboratory in Ovejuyo; the Thorax Institute in La Paz; and the Broncho-Pulmonary Institute in Cochabamba.

5. Education: Following the promulgation of an educational reform decree in 1955, the government increased the funds for education from 16% of the budget in 1953 to 25% in 1964. School construction was started all over the country with technical assistance from the U.S. For 15 years the Education Servicio had had control of selected rural normal and elementary schools on a rotating basis. During 1960, the scope of its operations was reduced in the rural school division to providing only technical assistance to a few schools. In 1961, the Ministry of Education was to assume full control of the Superior Normal Technical School. The U.S. largely financed the construction of the Pedro Domingo Murillo National Technical and Vocational School. In 1959, 52 urban schools

were repaired, using counterpart funds.

6. Mining: The U.S. financed an intensive study and a detailed report on the Bolivian mining industry by Ford, Bacon, and Davis, Inc. which was submitted to the Bolivian Government in 1956. In addition, a mining investment code designed to encourage private investment was prepared through a technical cooperation project. An Office of Minerals Deposits Development was established and received financing from counterpart funds as well as technical advisory services from the U.S. Geological Survey.

7. Petroleum: A special loan of \$2.7 million was made under the economic assistance program to the Bolivian Petroleum Agency (YPFB) to expand its exploration and exploitation activities. A Petroleum Code designed through a technical cooperation project was enacted by the Bolivian Government, leading to a significant increase in private investment in petroleum.

8. Industry: The major activity in this field was the Supervised Industrial Credit program, begun in 1958, which contributed to the development, rehabilitation and expansion of traditional and new Bolivian industries such as textiles, food products, hides and lumber.

9. Public Administration: A project was begun in 1955 to improve public administration through training courses for public employees and advisory services for public agencies. This project was carried out under a contract between the University of Tennessee and the University of San Andres in La Paz. The contract terminated in 1960.

10. Training: From 1945 to 1960, over 1,000 Bolivian technicians and officials had participated in training programs in the United States, Puerto Rico and other Latin American countries financed by over \$2,500,000 of U.S. technical cooperation funds.

11. Budgetary Support: From 1954-60 close to 60% of total counterpart

expenditures was for normal operating expenses in the national budget.

According to the USOM's Point Four report, the combined effect of economic aid, commodity imports, technical assistance and counterpart funds had a significant impact on the Bolivian economy. The rate of inflation was reduced, the foreign exchange value of the Boliviano became stabilized, and agricultural production increased. A major weakness remained in the low level of production in the mining sector. As of 1960 none of the reforms proposed in the Ford, Bacon and Davis study had been adopted.

When the Point Four report was published, the Mission proposed that economic aid would be gradually diminished. Technical cooperation projects would continue and there would be an expanded loan program to provide capital for investment projects. Many projects were being turned over to Bolivian agencies for operation and an attempt was being made to reduce the numbers of U.S. and Bolivian employees in the Mission and the Servicios.

FOOTNOTES

1. Malloy and Thorn, Beyond the Revolution, Bolivia Since 1952, 1971. pp. 83-84; pp. 166-167.
2. The term "economic" assistance or aid, as used in Part II alludes to financial aid or commodity import financing as opposed to the technical assistance type of aid then prevailing in Latin America. Subsequently, such assistance had various other titles such as "emergency" assistance, "special" assistance, "supporting" assistance, etc. Its purpose was to alleviate economic crises by providing balance of payments and budgetary support.
3. U.S. Operations Mission to Bolivia, Point Four in Bolivia, 1960. pp. 11, 94.
4. Ibid. pp. 86-89.
5. Republic of Bolivia, Ministry of Foreign Affairs, Memorandum II, Economic Development of the Republic of Bolivia, December 1954.

Best Available Document

SUMMARY OF PROJECT EXPENDITURES
BY FIELD OF ACTIVITY, 1952-1960
IN BOLIVIA

TABLE A-I

(In thousands of dollars)

Field of Activity	Technical Cooperation	Counterpart	Economic Aid Equip. & Supp.	Total
Agriculture	9,073	4,498	6,946	20,517
Transportation	4,585	2,953	6,406	13,944
Health and Sanitation	3,048	1,571	494	5,210
Education	3,427	1,020	221	4,668
Industry and Mining	1,015	2,547	3,562	7,124
Public Administration	3,120	303	3,423	6,846
Land Settlement	323	1,500	497	2,310
General and Miscellaneous	299	812 2/	441	1,552
Budgetary Support		32,066		32,066
TOTAL	24,887	47,360	14,996	87,243

1/ See Appendix Table A-IV Adjusted Totals.

2/ Transport of aid commodities.

Note: The difference between the dollar equivalent value of counterpart expenditures (\$47,360,000) and the total disbursements for the U. S. Economic Aid Program (\$117,067,000) is accounted for as follows:

1. Economic Aid funds spent for commodities which were donated rather than sold, hence not generating counterpart. (See Table 3 of Appendix) *
2. The disparate value between Economic Aid commodities and boliviano sale proceeds caused by prices set above the value of the goods based on artificial exchange rates prior to 1958.
3. Dollar Equivalent of Dispart Counterpart balances (September 30, 1960).
4. Dollar Equivalent of Counterpart Arrears (September 30, 1960).
5. Dollar Equivalent of the decrease in value of counterpart holdings and delayed payments caused by inflation (September 30, 1960).
6. DOLLAR EQUIVALENT OF COUNTERPART EXPENDITURES

TOTAL: VALUE OF ECONOMIC AID DISBURSEMENTS

\$13,797,000
28,500,000
9,308,000
4,598,000
1,638,000
47,360,000
\$117,067,000

* Should read "Table A-IV of Appendix".

This table and the tables on the following three pages were copied from the publication Point Four in Bolivia

Source: Counterpart and Project Costs, U.S. Economic Aid Program, U.S. Department of State, Office of Economic Affairs, Washington, D.C., September 30, 1960.

TABLE A-II
**U.S. TECHNICAL COOPERATION PROJECTS
 IN BOLIVIA 1952-1960**

BY PROJECT AND FIELD OF ACTIVITY
 (Obligations in thousands of dollars)

Agriculture		Industry, Mining and Labor	
Agriculture Servicio - Joint Fund	3,652	Industrial Development	19
Agriculture Servicio - Administration	797	Mining	184
Research and Technical Services	855	Industry and Mining	540
Agricultural Extension	764	Petroleum Code	59
Development Operations and Services	670	Labor Training and Advisory Program	213
Supervised Agricultural Credit	547	TOTAL	1,015
Other	<u>1,788</u>	Public Administration	
TOTAL	9,073	Government Management Assistance	328
Health & Sanitation		Financial Advisory Services	219
Public Health Service - Joint Fund	1,626	School of Public Administration	500
Public Health Servicio - Administration	140	Audio Visual Center	437
Operation of Health Facilities	346	Public Safety Program	572
Environmental Sanitation	169	USOM Administration	
Control of Specific Diseases	27	(Technical Support)	1,002
Health Education and Welfare	112	Other	<u>62</u>
Occupational Health	66	TOTAL	3,120
Other	<u>539</u>	Community Development	
TOTAL	3,045	Community Development	
Education		(Land Settlement)	323
Education Servicio - Joint Fund	1,362	General and Miscellaneous	
Education Servicio - Administration	199	General and Miscellaneous	<u>299</u>
Rural Education	584		
Industrial Education	273		
Vocational Agricultural Education	222		
Other	<u>787</u>		
TOTAL	3,427		
Transportation		Grand Total.....	<u>24,887</u>
Roads Servicio - Joint Fund	895		
Roads Servicio - Administration	312		
Demonstration Road Maintenance and Betterment	577		
Equipment Operators Training	35		
Engineering Construction Units	554		
Piray River Bridge	451		
Santa Cruz-Cochabamba Road			
Construction and Maintenance	1,256		
Civil Aviation	257		
Other	<u>218</u>		
TOTAL	4,585		

(US \$ 24,887,000.)

Source: Controller, USOM/Bolivia, D-4 Report, June 30, 1960.

U. S. obligations listed above include cost of U. S. technicians, foreign training, technical cooperation project commodities, and other costs including U. S. contributions to Servicio joint funds. The obligations include regular Technical Cooperation funds, \$72,300 of regional funds, and \$1,873,000 of Special Assistance Funds.

TABLE A-III
EXPENDITURES FOR LOCAL CURRENCY PROJECTS
IN BOLIVIA 1954-1960

AGRICULTURE	Dollar*		EDUCATION	Dollar*	
	Bolivianos (millions)	Equivalent (thousands)		Bolivianos (millions)	Equivalent (thousands)
<u>Livestock</u>			<u>School Construction and Repair (Except Agricultural School)</u>		
Breeding - Reyes and Villamontes	120	40	Industrial School (P.D.M.)	1,355	252
Sheep Ranch	410	38	Mineros Rural School	75	17
Animal Vaccine Laboratory	745	126	Warisata and Canasmoro		
Sheep Shearing Pool	35	4	Normal Schools	215	26
TOTAL: Livestock	1,310	208	Paracaya Normal School	100	10
<u>Sugar</u>			School Repair	5,500	514
Sugar Development	2,344	240	TOTAL: School Construction and Repair	7,525	849
Sugar Mill - Guabira	680	294			
National Sugar Commission	63	6	<u>Teacher and Language Training</u>		
TOTAL: Sugar	3,587	540	Emergency Teacher Training	1,000	105
<u>Loan Programs</u>			Teacher Training Course	50	6
Supervised Agricultural Credit	16,311	1,415	Language Training	178	17
Sugar Marketing	12,255	1,031	Andean Handicraft	445	43
TOTAL: Loan Program	28,566	2,446	Total: Teacher & Language Training	1,673	171
<u>Irrigation</u>			TOTAL: EDUCATION	9,498	1,020
Cochabamba-Oruro	1,806	309			
Villamontes	530	207	<u>HEALTH AND HOUSING</u>		
Small works	30	8	<u>Eradication of diseases</u>		
TOTAL: Irrigation	2,166	524	Malaria Eradication	14,522	1,319
<u>Muyurina Agricultural School</u>			Smallpox Eradication	586	49
Construction Muyurina	1,069	163	Yaws Eradication	165	14
Operation and Maintenance	400	42	TOTAL: Eradication of diseases	15,273	1,382
TOTAL: Muyurina Agr. School	1,469	205	<u>Hospital and Health Center Construction</u>		
<u>Milk Plant</u>	150	39	Construction of Health Centers	485	76
<u>Potato Production</u>	154	20	Health Offices Rehabilitation	300	25
<u>Erection of Grain Storage Silos</u>	100	33	Environmental Sanitation	261	51
<u>Experimental Stations</u>			TOTAL: Hospital & Health Center Construction	1,046	152
Research and Development Station	600	63	<u>Other Medical Facilities</u>		
SAI Various Services	676	177	School of Nursing	100	13
TOTAL: Experimental Stations	1,276	240	Construction Medical School and Health Facilities (Thorax Institute)	400	34
<u>Other</u>			Bacteriological Institute	592	56
SAI Special Supplementary Contribution	2,325	243	TOTAL: Other Medical Facilities	1,092	103
TOTAL: AGRICULTURE	41,103	4,498	<u>Housing</u>		
			Ministry of Finance	400	34
<u>INDUSTRY and LABOR</u>			TOTAL: HEALTH and HOUSING	17,811	1,671
Industrial Credit	22,781	1,988			
Cement Plant Sucre	90	12	<u>MINING</u>		
Brazil Nuts Loan Program	800	67	Transport of Mining Equipment	201	24
Productivity Center	21	2	Mineral Deposits Development	4,258	440
Employment Services	145	14	TOTAL: MINING	4,459	464
TOTAL: INDUSTRY and LABOR	23,937	2,083			

TABLE A-III
(CONTINUED FROM OPPOSITE PAGE)

TRANSPORT	Bolivianos (millions)	Dollar* Equivalent (thousands)	LAND SETTLEMENT	Bolivianos (millions)	Dollar* Equivalent (thousands)
Santa Cruz Roads			Okinawa Immigration		
Access Roads - Santa Cruz	280	137	Resettlement and Internal Migration	614	72
Cochabamba - Santa Cruz	45	30	Colonization and Resettlement	364	47
Maintenance Cochabamba-Santa Cruz-Montero	7,224	608	Colonization	36	5
Sugar Access	1,005	85	(Alto Beni Settlement)		
North of Santa Cruz	500	42	Agrological Studies	96	8
TOTAL: Caminos Santa Cruz	9,054	902	Special Project Caranavi-Alto Beni Road	5,311	845
La Paz Roads			Legal Survey of Alto Beni Area	40	3
Construction San Pedro-Caranavi	5,106	575	Aerial Survey and Construction Caranavi-Alto Beni Road	70	13
Caranavi Construction	850	175	Caranavi-Alto Beni Road Supervision	5,280	444
Caranavi-Altamarani Study	20	13	Health Survey Caranavi-Alto Beni	442	37
Licoma-Calamina (CBF)	5,762	485		39	3
TOTAL: Caminos La Paz	11,737	1,248	TOTAL: LAND SETTLEMENT	15,327	1,500
Other Roads			TRANSPORT of AID COMMODITIES		
Urban Access Road	6,391	545	Transportation of Section "402" Commodities	4,000	414
Maintenance and Repair	220	43	Transportation of other commodities	4,000	392
Cochabamba Access Roads (CBF)	20	2	TOTAL: TRANSPORT of AID COMMODITIES	8,000	812
Highway Bridge Construction	689	58			
TOTAL: Other Roads	7,320	748	BUDGETARY SUPPORT		
Air Transport			National Agrarian Reform	3,282	370
Airfield Studies	30	10	Ministry of Agriculture	2,523	295
National Institution of Aeronautics	10	1	Ministry of Mines and Petroleum	649	73
TOTAL: Air Transport	40	11	Ministry of Communications	11,442	1,148
Warehouses			Contracts and Constructions	25,912	2,995
Procurement Warehouse	425	44	Ministry of Labor	7,360	429
TOTAL: TRANSPORTATION	28,576	2,953	Ministry of Health	16,768	1,990
PUBLIC ADMINISTRATION			Ministry of Rural Affairs	25,371	2,953
School of Public Administration	1,166	112	Ministry of Education	54,590	5,958
Training Public Administration			National Commission of Planning and Coordination	243	27
Research Center	85	7	Bolivian Development Corporation	5,104	601
Department of Supply	380	41	Office of the Controller General	1,792	202
Audit Services	119	12	Ministry of Public Works	2,241	251
Bolivian Accounts	178	15	Ministry of Economy	508	53
Public Safety	760	64	Ministry of Finance	6,733	753
Audio Visual Center	580	49	Budgetary Support - General	158,717	13,355
Assistance Program Support	30	3	Administrative Support - U. S. Government Agencies	4,126	404
TOTAL: PUBLIC ADMINISTRATION	3,298	303	TOTAL: BUDGETARY SUPPORT	327,681	32,056
GRAND TOTAL: Bs. 479,590,000.000, equivalent to U.S. \$ 47,360,000.				<u>479,590</u>	<u>47,360</u>

*The average yearly free rate of exchange was used to convert Boliviano expenditures to U.S. dollars equivalents in 1954, 1955 and 1956, as follows:

1954 : 1497 bolivianos per U.S. dollar

1955 : 3001 " " " "

1956 : 7698 " " " "

In subsequent years the rate of exchange used for conversion was derived by dividing the yearly Boliviano amount billed to the Government of Bolivia by the yearly U.S. dollar disbursements as recorded in Schedule A) attached to USOM/Bolivia letter MC-1:121, to the Minister of Economy, August 19, 1960.

These rates were as follows:

1957 : 5243 bolivianos per U.S. dollar

1958 : 9558 " " " "

1959 : 11888 " " " "

1960 : 11855 " " " "

Controller, USOM/Bolivia, Report, Status of Local Currency Funded Projects, Fiscal Years 1954-1961 inclusive, as of 9-30-60.

PART III

THE ALLIANCE FOR PROGRESS YEARS (1961-1971)

A. Chronology of Political Events in Bolivia during the Alliance Years:

1960-64	Second term of Paz Estenssoro
May 31, 1964	Paz Estenssoro elected to third term
November 4, 1964	Coup - General Rene Barrientos Ortuno assumes power
July 3, 1966	Barrientos elected President
April 27, 1969	Barrientos killed in helicopter crash
September 27, 1969	Coup - General Alfredo Ovando Candia assumes power. (He nationalized Bolivian Gulf Oil and nullified Petroleum Code.)
October 7, 1970	Coup - General Juan Jose Torres Gonzalez assumes power
August 21, 1971	Coup - Colonel Hugo Banzer Suarez assumes power

B. The Launching of the Alliance for Progress: The Alliance for Progress was proclaimed on March 13, 1961 by President Kennedy. The next day he asked Congress for \$500 million for an Inter-American Program for Social Progress - \$394 million to be administered by the newly-created Inter-American Development Bank, \$100 million by the U.S. Government, and \$6 million by the Organization of American States. A week later the President announced a worldwide "Program for the Decade of Development" in a special message to Congress proposing the Act for International Development and the establishment of the Agency for International Development (AID). At Punta del Este, Uruguay, on August 17, 1961, the Alliance for Progress was formalized by the execution of a Charter containing its objectives.

C. Bolivia and the Alliance: In spite of positive developments in the agriculture and petroleum sectors and contrary to the upbeat expectations of the USOM report in 1960, the Bolivian economy was in serious trouble in 1961. The FY-1962 Congressional Presentation, dated May 20, 1961, described the negative aspects of the situation as follows. Mining production had declined since 1952. So had per capita GNP. The balance of payments was negative and there was a budgetary deficit. The only reason for survival had been U.S. cash grants and budgetary support (30% of the budget). The drain of COMIBOL on the economy was described as equal to or in excess of U.S. grant aid.

President Kennedy had appointed a special task force (headed by Dr. Willard Thorp of Amherst) to study Bolivia's problems. As a result of the Mission's findings, a "re-oriented program" was being initiated. One of the principal goals was the rehabilitation of the mining industry. A new initiative was undertaken in this regard in 1961 known as the "Triangular Operation" (Operacion Triangular). AID, the Inter-American Development Bank (IDB) and the German Government agreed to provide loan funding totaling \$37.75 million over a three-year period to rehabilitate COMIBOL. The funds were to be used for exploration of new mineral deposits, for equipment to rehabilitate the mines and mills, and for commissary supplies, and to syphon off surplus labor. The proposed financial help was contingent upon COMIBOL compliance with difficult conditions considered essential for the rehabilitation of its operations.

While "special" assistance had previously been expected to be gradually reduced from \$13 million in FY-1960, the level had risen in FY-1961 to \$23 million. It was considered essential to provide \$11 million in "supporting" assistance in FY-1962 to prevent the collapse of the govern-

ment with further reductions contemplated in the future. Budgetary support was to be phased out in 1963.

A view of Bolivia one year later is contained in a report of May 1962 sponsored by the Committee of Nine of the Alliance for Progress (CIAP) to evaluate the development program of Bolivia in accordance with the Charter of Punta del Este.^{1/} The Bolivians had prepared a comprehensive "Ten-Year Development Plan for the period 1962-1971". Rather than presenting a full evaluation of the Plan, the CIAP report focussed "on the immediate needs of the Bolivian economy"..."because the serious economic situation of Bolivia demands immediate attention as to a greater internal effort and to external financial assistance."^{2/} While the report indicated that Bolivia, in terms of basic reforms and the preparation of a development plan, had met many of the key requirements of the Alliance, the plan had gaps in terms of specific sectoral studies and feasibility studies of projects. It recommended that the Government of Bolivia prepare an initial two-year investment program within the framework of the general development plan and that assistance be provided to Bolivia in project preparation and execution.

After describing the reforms growing out of the Revolution, the report presents a grim picture of the negative factors contributing to "a process of regression rather than economic growth".^{3/} The report speaks favorably of the accomplishments resulting from external assistance, giving as examples the "construction of vitally important roads, the construction and operation of clinics in the countryside...assistance to the nation's school system...and the aid to agricultural projects, including those in sugar and rice." It also cites assistance to COMIBOL, YPFB and the CBF as having clearly advanced the nation's development. However, it then reaches the conclusion that "such assistance...has fallen short of launch-

ing Bolivia on the road to economic progress".^{4/}

The Committee recommended that Bolivia seek \$80,000,000 in financial aid on "flexible terms" to finance pre-investment projects and studies, project execution, strengthening national credit agencies and the direct hiring of technical personnel. In a Memorandum of Understanding dated July 20, 1962, the U.S. and the IDB agreed to provide the \$80,000,000 for the purposes recommended by the Committee. The Government of Bolivia, in turn, agreed to the following self-help measures: (1) improvement of public administration; (2) improvement of revenue collection; (3) incentives for private investment; (4) changes in tax structure; (5) strengthening of the planning mechanism; (6) execution of the 10-year plan; and (7) improvement of the credit position of the country.^{5/}

According to Cornelius Zondag, in his 1966 book The Bolivian Economy, 1952-65, the U.S. aid program under the Alliance for Progress became "more directly concerned with making operational" the 10-year development plan. The major objectives of U.S. assistance during the early years of the Alliance were "financial consolidation and improvement of public administration, the rehabilitation of the nationalized mining industry and the expansion of the private mining sector; rural development and the development of new agricultural areas through colonization and improved transportation; human resources development and the expansion of industry, along with the creation of a more favorable investment climate and the increase of domestic savings."^{6/}

Whereas during the years immediately prior to 1962, the average U.S. aid level was about \$25 million a year, total obligations for FY 1962, 1963 and 1964 were \$36.6, \$63.0 and \$77.2 million respectively.^{7/} Supporting assistance grants continued at a high level and substantial amounts were provided for development loans. By December 31, 1964, AID had authorized

loans totaling \$63.9 million.^{8/} These included loans for feasibility studies, the rehabilitation of COMIBOL, modernization of the La Paz airport, construction of a customs warehouse, recapitalization of the Agricultural Bank, and the establishment of the Industrial Development Bank. The largest loans authorized during 1962-64 (totaling \$40,000,000) were for the construction of important penetration roads - the so-called "Proyectos 3 & 7" and "1 & 4". In addition to dollar loans, local currency loans were made for the equivalent of \$12 million to COMIBOL and \$12.7 million to the YPFB. The stepped up level of aid contributed to a sharp rise in the rate of growth to an average of 5.7% per annum.

Although Paz Estenssoro was elected for a third term in 1964, his incumbency was aborted by a military coup leading to the take-over in November 1964 of the government by Air Force General Rene Barrientos, the Vice President. General Barrientos vigorously pursued the development goals of the Revolution, and annual growth rates rose well above the levels of the early sixties. This can be attributed as much to the fruition of prior MNR investment policies and improved world market prices for exports as to the stability and moderate policies of the Barrientos government.^{9/}

Several steps were taken to reorganize and rationalize government operations. A reform considered of great importance was the consolidation and control, under the Minister of Finance, of the budgets and foreign borrowings of semi-autonomous government corporations. The CBF divested itself of many of its operating functions and most of the government's operations in the agriculture sector were consolidated in the Ministry of Agriculture. Well-qualified Bolivian tecnicos were placed in important positions, and the rudiments of a government bureaucracy, not so intensely motivated by politics, began to appear.^{10/} Private investment was

(U.S. FISCAL YEARS - MILLIONS OF DOLLARS)
 U.S. OVERSEAS LOANS AND GRANTS - OBLIGATIONS AND LOAN AUTHORIZATIONS
 COUNTRY: INDIA

PROGRAM	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
I. ECON. ASSIST. - TOTAL	30.7	36.6	63.8	77.2	10.0	37.3	19.2	10.6	21.5	0.0	11.7
LOANS	4.7	10.4	41.1	50.6	6.8	27.5	15.6	11.9	15.3	-	5.1
GRANTS	21.0	26.2	21.9	26.6	12.0	9.8	3.6	6.7	6.2	0.0	6.6
A. AID AND PREDECS.	27.9	32.3	35.8	60.5	9.4	20.4	15.5	8.6	10.6	3.0	3.7
LOANS	7.3	7.9	10.5	42.7	0.6	22.0	11.0	4.5	7.1	-	-
GRANTS	20.6	24.4	17.3	17.8	0.6	6.4	4.5	4.1	3.5	3.0	3.7
(SEC. SUPP. ASSIST.)	22.734	19.111	9.911	12.311	4.011	3.211	0.4	5.011	-	-	-
B. FOOD FOR PEACE	2.8	3.4	16.1	13.4	3.9	6.3	1.5	0.3	9.5	1.6	6.9
LOANS	2.4	2.5	12.2	7.1	2.9	5.5	0.6	7.4	0.2	-	5.1
GRANTS	0.4	0.9	3.9	6.3	1.0	0.8	0.9	0.9	1.2	3.6	1.8
TITLE I - TOTAL	2.4	2.5	12.2	7.1	2.9	5.5	0.6	7.4	0.2	-	5.1
REPAY. IN 3-LOANS	-	-	2.6	1.3	-	0.6	0.6	1.4	0.2	-	-
PAY. IN FOR. CURR.	2.4	2.5	9.6	5.8	2.9	4.9	-	-	1.2	3.6	1.8
TITLE II - TOTAL	0.4	0.9	3.9	6.3	1.0	0.8	0.9	0.9	0.4	2.6	1.8
E. RELIEF. EC. DEV. VFP.	-	0.1	0.2	1.2	0.5	-	0.9	0.5	0.0	1.0	1.0
VOL. RELIEF. AGENCY	0.4	0.8	3.7	5.1	0.5	0.8	0.9	0.5	0.0	-	-
C. OTHER ECON. ASSIST.	-	0.9	11.1	3.3	5.5	2.6	2.2	1.7	1.5	1.4	1.1
LOANS	-	-	10.4	0.8	3.3	-	-	-	-	-	-
GRANTS	-	0.9	0.7	2.5	2.2	2.6	2.2	1.7	1.5	1.4	1.1
CONTR. TO IFT	-	-	-	-	-	-	-	-	-	-	-
PEACE CORPS	-	0.9	0.7	2.5	2.2	2.6	2.2	1.7	1.5	1.4	1.1
OTHER	-	-	-	-	-	-	-	-	-	-	-

Agency for International Development, U.S. Overseas Loans and Grants

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- (b) to generate local currency to provide matching requirements for utilization of \$70 million in external credits from multi-lateral agencies for development projects;
- (c) to provide foreign exchange to bolster the Bolivian government's depleted reserves and enable the government to implement IMF-recommended economic stabilization measures including a devaluation of the Bolivian peso;
- (d) to ensure an adequate supply of bread during the critical economic stabilization period.

The first stage of this assistance consisted of a \$2 million supporting assistance grant and a \$12 million program loan in September and October 1971 to finance the local costs of President Banzer's "Emergency Plan" which was developed soon after he assumed power and was designed to promote employment and stimulate economic activity. Another program loan, amounting to \$20 million, was authorized in June 1972 to finance the local costs of additional public sector expenditures under the President's "Take-off Program for Economic and Social Development" (PADES). \$24,700,000 of the AID funds were disbursed immediately following the devaluation in October 1972.

In addition to emergency assistance, the following AID development loans were authorized during the early years of the Banzer government:

\$8,000,000	Agricultural Marketing & Production
7,000,000	Special Fund for Economic Development (for industrial loans)
3,000,000	Rural Community Development
11,800,000	Rural Electrification I
9,500,000	Rural Electrification II

National Urban Development Service	3,000,000
Savings & Loan Development	<u>6,000,000</u>
Total	\$48,300,000

The economy was revitalized under the Banzer regime with increased construction activity, expanding credit by the private banking system, substantial new foreign credits, new foreign investments in gas and petroleum exploration, new domestic investments in export and import-substitution agricultural products, and strong export performance. The major weakness in the economy was the continuation of a sizable unfinanced central government fiscal deficit.

2. Economic Development Priorities and AID Long-Range Strategy -

FY-1974-77: The priorities of the Banzer government were similar to those of the 1960s and its resource allocation policy gave highest priority to goods-producing projects in foreign exchange earning sectors and to infrastructure. The FY-1975 Development Assistance Program (DAP) listed the following priorities for Bolivia's long-term development:

- (a) further development of the communications and transport system, particularly highways and railroads. While AID had in the past played a major role in this sector, particularly in highway construction, other lenders, such as the IDB and IBRD, were taking over this role.
- (b) development of hydroelectric power with the IBRD assuming the leading role in financing generation and distribution systems and AID financing basic rural distribution systems.
- (c) rationalization of operations and additional investment in the minerals sector. AID was a major contributor in the early 1960s but AID's involvement was no longer necessary since the IBRD and others were providing financing.

(d) fostering production of agricultural crops with large export potential. In this regard, the IBRD, IDB and private enterprises were providing advice and financing for the biggest money makers - cattle, cotton and sugar.^{6/}

All of the foregoing objectives were consistent with the growth-oriented policies of the Bolivian Government. The DAP points out that if AID's program goals were in the first instance merely growth-oriented, AID would attempt to help finance some of these investments in line with the resource allocation priorities of the Bolivians. However, AID was concerned with improving the quality of life of the least advantaged part of the population in the rural sector.^{7/} (It was in 1973 that U.S. foreign aid policy was moving toward the so-called "new directions" of focussing on the rural poor of the world culminating in the Foreign Assistance Act of 1973 which emphasized assistance in meeting the basic human needs of this sector of the population in agriculture, health and education.) Thus, the DAP proposes the AID assistance be directed at the rural population - primarily the small farmer.

The major goals of AID were: (a) to help increase the production of the small farmer through technical assistance, research, inputs and markets; (b) to improve the educational system with a focus on the primary level in rural areas, and (c) to develop more efficient delivery systems of health services in rural areas. The largest effort would be in the agricultural sector with U.S. assistance requirements for FY 1974-77 estimated at \$47,000,000 in loans and \$5,000,000 in grants.

To avoid diluting the impact of AID's limited resources, projects designed to increase agricultural production were to be concentrated in the Valleys (except for the Yungas) and the Oriente. Other reasons given

for this regional focus were as follows: (a) other assistance agencies were planning to work in the Altiplano; (b) it would permit the use of two methods to increase production, i.e. expansion of traditional inputs and the use of more modern inputs; (c) the Oriente had the brightest prospects for the future of Bolivian agriculture; and (d) AID had a great deal of experience with the problems in these areas.

To carry out the DAP strategy, the following loans were authorized during the next three years (1974-77):

Subtropical Lands Development	\$9,700,000
Education Mgt. and Instructional Development	9,650,000
Basic Food Production	8,000,000
Agriculture Sector I	9,200,000
Rural Education I	4,924,000
Small Farmer Organizations	7,500,000
Rural Access Roads I	8,500,000
Rural Education II (Teacher Training)	10,000,000
Rural Sanitation	4,000,000
Agriculture Sector II	11,300,000
Agribusiness and Artisanry	<u>6,200,000</u>
Total	\$88,974,000

Most of these loans were accompanied by substantial grant-funded technical assistance.

3. Development Assistance Program Strategy - FY 1978-81: When the DAP submission for FY 1978-81 was published in March 1978, President Banzer had been in power for 6½ years. Real growth in GDP during this period of political stability averaged 6%. The Bolivian peso (last devalued in October 1972) had maintained its value of 20 pesos to US\$1, and

inflation had been kept at a reasonable 10 to 18% level. In 1974, Bolivia had a balance of payments surplus of \$112 million, and foreign exchange reserves rose to \$164 million, the highest level in Bolivian history. Except for a mini-recession in late 1975 and the first half of 1976, strong economic performance continued through 1977. Disbursements on foreign-financed projects reached \$390 million that year. However, the announcement of elections for July 1978, the first in 12 years, created political uncertainty in early 1978 and generated significant capital flight. Of major concern was Bolivia's growing public debt. Since 1971 total debt contracted had increased from \$782 million to \$2.5 billion. Debt service had reached 23% of total exports in 1977. Other problems were declining petroleum production and exports and the chronic problem of the public sector fiscal deficit.^{8/}

The government's development strategy contained in the Development Plan for 1976-80 continued to focus on promoting rapid growth based on increasing mineral and agricultural exports with the bulk of public investment in productive sectors. While the government's goals in agriculture, health and education corresponded to AID's interests, social services, the rural poor and subsistence farmers were low on the list of Bolivian Government (GOB) priorities in terms of projected investment levels and proposed projects.^{9/} This imbalance in the development plan and the dearth of social projects presented by the GOB for donor financing were pointed out to Bolivian representatives at an IBRD Consultative Group meeting in May 1977. The Bolivians acknowledged the imbalance and requested donor assistance in designing projects for the social sectors.^{10/}

AID's strategy continued to concentrate on programs to ameliorate the problems of the rural poor, but the DAP revision contained two major

changes in approach:

(a) Different geographic area of concentration: Using an improved data base, efforts to better define the target group indicated that target populations appropriate for AID projects existed outside of the areas of geographic concentration of the previous strategy. The new areas selected were areas in which AID had not had projects before and in which other donors were not operating, i.e. the Departments of Tarija, Chuquisaca, Pando, Beni and Potosi. (These areas were also the areas of lowest priority in the GOB investment plan for 1976-80.)

(b) Work more directly with Departmental Development Committees: The purpose of this approach was to better identify projects relevant to the needs of the target group and to strive for greater impact on the group, involving them in the process via the Development Committees. ^{11/}

In addition to providing assistance via loan and grant projects, the AID Mission submitted a proposal for a PL 480 Title III program to help Bolivia meet its shortfall in wheat. In 1978, Bolivia became the first country in the world to sign a PL 480 Title III Food for Development Agreement with the United States. The program provided for \$75 million in wheat imports over a five-year period. The local currency generated from the sale of the wheat within Bolivia has been used to fund development projects in the agricultural and health sectors. ^{12/}

C. Political Developments - 1978 to 1980: The unprecedented economic growth and political stability experienced by Bolivia under Banzer were interrupted in 1978 following the announcement in November 1977 of elections

to be held in July 1978. It was widely expected that Banzer would be a candidate for President and that he would win. However, in December 1977 he formally declined to run and threw his backing to Air Force General Juan Pereda. Former President Hernan Siles, although still in exile, surfaced as the front-running opposition candidate. Bolivia had not had elections for 12 years, and the campaign culminated in an election day, July 9, 1978, filled with accusations of fraud and vote tampering throughout the country. The Bolivian Electoral Court annulled the vote and ordered new elections. A military coup followed on July 21 and power was handed over to General Pereda.^{13/} A chronology of coups and other political events from that date follows:

July 21, 1978	Coup: General Juan Pereda
November 24, 1978	Coup: General David Padilla
July 1, 1979	Elections held - none of candidates received majority of vote. Congress selected Walter Guevara Arce as interim President.
November 1, 1979	Coup: Colonel Alberto Matusch Busch
November 16, 1979	Matusch resigns and Congress selects the President of the Congress, Lidia Gueiler Tejada as interim President of Bolivia.

Elections are now scheduled for June 1980.

D. Economic Developments - 1979 to 1980: The deterioration of the economy, beginning in 1977, called for difficult economic and financial decisions by 1978. However, neither the Banzer government nor the ensuing series of military governments were willing to take unpopular economic reform measures.^{14/} The deterioration therefore continued unchecked. The public sector deficit reached 14% of GDP in 1979, debt service increased to 35% of exports, and the balance of payments deficit

rose to \$179 million. In November 1979 following the Natusch coup the Central Bank's liquid foreign exchange totaled only \$20 million, sufficient to meet foreign exchange requirements for only two to three days.^{15/} On November 30, 1979, the Gueller government moved to implement a long-needed package of economic reforms and subsequently signed a stabilization and stand-by agreement with the IMF.

E. AID Program since 1978:^{16/} Despite the political turmoil and the deteriorating economic situation during the late seventies, AID continued to authorize a substantial amount of new funding for development loans and grants. The following loans were approved in 1978 and 1979:

Rural Roads II	\$13,000,000
Village Development	15,300,000
Rural Health	10,000,000
Departmental Development Corporations	10,000,000
Agricultural Credit	<u>14,000,000</u>
Total	\$62,300,000

The Congressional Presentation (CP) of FY 1981 contains a list of active projects as of January 18, 1980.^{17/} These include 17 active loans and 19 active grants, of which 8 are linked to specific loans. Obligations through FY 1979 totaled \$177,004,000 and expenditures totaled \$72,685,000, leaving an unexpended balance (pipeline) of \$104,319,000. The CP proposes three new grants and one new loan in FY 1980 and seven new grants and four new loans in FY 1981.

The Country Development Strategy Statement (CDSS) for FY 1982, published in January 1980, proposes a continuation of the strategy of the March 1978 DAP in terms of AID objectives with an emphasis on rural development and the operation of programs through local entities, including the Departmental Development Corporations. The geographical area in which

programs will be implemented is not clearly defined but the CDSS indicates that the areas of operation will generally be in the valleys and the lowlands. With regard to the pipeline, the CDSS states that Bolivia's financial difficulties have made it difficult for the GOB to meet the counterpart requirements of assistance projects. The situation is expected to improve according to the AID Mission since they had reduced the GOB counterpart requirements for 1980, and local currency generated by the IBRD's projected \$50 million program loans in 1980 and 1981 would be available for counterpart requirements.^{18/}

During the CDSS review a number of hard questions were posed with regard to Bolivia's growth prospects and absorptive capacity as well as questions about the effectiveness of AID programs to date. The results of the review had not been published at the time this paper was completed.

The two tables on the following pages provide figures on the levels of U.S. economic assistance in the 70s. The second table (from the FY 1981 CP) also gives the totals for the various categories of economic assistance from 1946-1978.

U.S. OVERSEAS-LOANS AND GRANTS-OBLIGATIONS AND LOAN AUTHORIZATIONS
(U.S. FISCAL YEARS - MILLIONS OF DOLLARS)

COUNTRY: BOLIVIA	1960	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
I. ECON. ASSIST. - TOTAL	18.6	21.5	8.0	11.7	69.0	27.3	47.1	25.8	29.3	45.5	52.2
LOANS	11.9	15.3	-	5.1	59.0	22.5	43.0	17.2	20.9	31.5	30.1
GRANTS	6.7	6.2	8.0	6.6	10.0	4.8	4.1	8.6	8.4	14.0	14.1
A. AID AND PRECEDES	8.6	10.6	3.0	3.7	55.6	17.9	30.5	20.1	22.4	35.8	34.3
LOANS	4.5	7.1	-	-	59.0	13.1	36.6	17.2	20.9	31.5	24.3
GRANTS	4.1	3.5	3.0	3.7	5.6	3.9	1.9	2.9	1.5	4.3	4.0
(SEC. SUPP. ASSIST.)	5.0	-	-	-	2.0	-	-	-	-	-	-
B. FOOD FOR PEACE	0.3	9.4	3.6	6.9	4.4	10.3	0.3	5.1	6.2	6.7	10.5
LOANS	7.4	0.2	3.6	5.1	4.4	9.4	6.4	5.1	6.2	6.7	10.5
GRANTS	0.9	1.2	-	1.8	-	0.9	1.9	-	-	-	6.7
TITLE I - TOTAL	7.4	0.2	-	5.1	-	9.4	6.4	-	-	-	10.8
REPAY. IN S-LOANS	7.4	0.2	-	5.1	-	9.4	6.4	-	-	-	10.8
PAY. IN FOR. CURR.	-	-	-	-	-	-	-	-	-	-	-
TITLE II - TOTAL	0.9	1.2	3.6	1.8	4.4	0.9	1.9	3.1	6.2	6.7	5.7
E. RELIEF, EC. DEV. WFP	0.4	0.4	2.6	-	2.6	0.1	0.2	1.2	0.5	1.3	0.3
VOL. RELIEF AGENCY	0.5	0.8	1.0	1.8	1.8	0.8	1.7	3.9	5.7	5.4	5.4
C. OTHER ECON. ASSIST.	1.7	1.5	1.4	1.1	-	-	0.3	0.6	0.7	3.1	2.4
LOANS	-	-	-	-	-	-	-	-	-	-	-
GRANTS	1.7	1.5	1.4	1.1	-	-	0.3	0.6	0.7	3.1	2.4
CONTR. TO IFF	-	-	-	-	-	-	-	-	-	-	-
PEACE CORPS	1.7	1.5	1.4	1.1	-	-	-	-	-	-	-
OTHER	-	-	-	-	-	-	0.3	0.6	0.7	3.1	2.4
II. MIL. ASSIST. - TOTAL	2.4	2.0	1.5	2.5	6.0	5.0	0.0	7.5	4.7	3.1	0.9
LOANS	-	-	-	-	-	-	4.0	4.0	-	-	-
GRANTS	2.4	2.0	1.5	2.5	6.0	4.0	4.0	3.5	4.7	3.1	0.9
A. MAP GRANTS	1.6	1.0	0.7	1.2	2.9	3.1	2.0	2.6	3.4	2.5	0.1
B. CREDIT SALES - FMS	-	-	-	-	-	-	4.0	4.0	-	-	-
C. INTL. MIL. ED. TRNG.	0.6	0.7	0.5	0.6	0.5	0.0	0.4	0.6	0.8	0.6	0.7
D. TRAN-EXCESS STOCK	0.3	0.2	0.3	0.7	2.6	0.9	0.8	0.3	0.5	-	-
E. OTHER GRANTS	-	-	-	-	-	-	-	-	-	-	-
III. TOTAL ECON. & MIL.	21.0	23.5	9.5	14.2	66.0	32.3	55.1	33.3	34.0	48.7	54.0
LOANS	11.9	15.3	-	5.1	59.0	22.5	47.0	21.2	20.9	31.5	30.1
GRANTS	9.1	8.2	9.5	9.1	16.0	9.6	8.1	12.1	13.1	17.2	14.9
OTHER US LOANS	-	0.2	-	-	-	-	-	-	5.9	24.7	17.6
EX-IM BANK LOANS	-	0.2	-	-	-	-	-	-	4.9	15.7	5.5
ALL OTHER	-	-	-	-	-	-	-	-	1.0	9.0	17.0

* LESS THAN \$50,000.
** INCLUDES CAPITALIZED INTEREST ON PRIOR YEAR LOANS.

FOOTNOTES

1. Agency for International Development, Development Assistance Program, FY 1975, Bolivia, November 1973, p.6.
2. FY 1971 Congressional Presentation, Latin America, p. 175.
3. Development Assistance Program, FY 1975, p. 7.
4. Ibid. p. 38.
5. Ibid. p. 38-39.
6. Ibid. p. x.
7. Ibid. p. 36.
8. Agency for International Development, Development Assistance Program, USAID Bolivia, March 1978, pp. 73-75.
9. Ibid. p. 24.
10. Ibid. p. 25.
11. Ibid. p. 2.
12. Department of State, Background Notes, Bolivia, April 1979, p. 7.
13. AID-LAC/SA Briefing Paper for AID Administrator, Current Country Situation, January 1979, p. 1.
14. Agency for International Development, Country Development Strategy Statement (CDSS), FY 82, January 1980, p. 4.
15. Ibid. pp. 8-10.
16. For purposes of establishing a cut-off date for this history, the CDSS of January 1980 and the Congressional Presentation for FY-81 are the last program documents used as points of refer
17. Congressional Presentation, FY 1981, Latin America, pp. 69
18. CDSS, FY 82, p. 15.

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