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BOLIVIA

FINANCIAL AND POLICY ANALYSIS

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MARKET TOWN CAPITAL FORMATION PROJECT
Project Number 511-0573

MARCH 1988

by Bruce Heathy

By cable of February 12, 1988 USAID/LA Paz proposed the following Scope of Work (SOW) in connection with the analysis of the Market Town Capital Formation Project (MTCF):

> "Conduct a detailed analysis of self-sufficiency designed projects in the Private Sector portfolio in order to identify potential problems of under performance in meeting self-financing goals. The financial analyst should examine performance to date in meeting these requirements and recommend actions that need to be instituted to correct perceived problems."

BACKGROUND

The Market Town Project, authorized in July of 1986, is a follow-on assistance program to two previous AID funded projects referred to as the Rural Development Planning Project(RDP) and the Departmental Development Corporations Project. Prior to AID involvement Departmental Development Corporations (DDCs) had been established by the Government of Bolivia (GOB) in each of the country's nine departments to promote urban and rural development. The two AID projects provided grant and loan assistance to improve DDC capacities in planning and promoting development activities and to refinance private sector investments identified and developed by the DDCs. Both projects were suspended in 1980, but reactivated in 1983, to focus on the promotion of private sector investment in productive agro-industrial enterprises.

In 1984 the concept of the Unidades Crediticio-Financieras (UCFs) was approved. Theses new entities were established within the DDCs as semi-autonomous counterparts to the DDC investment planning and promotional offices, and were created especially to help channel the loan resources of the DDC project to Intermediary Credit Institutions (ICIs), the final lenders under the DDC Project. To date eight UCFs have been established.

An evaluation of the RDP/DDC projects concluded that a future project should strengthen the UCFs, more fully utilize the capacity of partcipating ICIs, and concentrate on financing and implementing sub-projects in rural areas by further developing cooperation among the UCFs, ICIs, and investors. The MTCF Project is the outgrowth of the recommendations of the evaulation team.

The MTCF Project budget totals $41.9 million. Of AID loan funds $14.5 million is provided for investment financing purposes. The GOB was to provide $6.5 million from PL-480 funds and the Privated Sector was projected to provide $16.5 Million for investment financing purposes. The balance of $4.4 million includes $3.5 million in USAID Grant funds primarily for Technical Assistance, Training, and Project Support Costs. (Support Costs were to establish and maintain the Project Control Unit (PCU) whose function is to coordinate and supervise the investment financing activities of the UCFs). The remaining $.9 million represents $.5 million for contingencies and $.4 million from GOB for Project support costs.

In addition to the $14.5 million provided by AID and $6.5 million from the GOB, a further $5 million was to be contributed from the Private Agricultural Producer Organization Project (PAPO). Total new funds available for financing investments was therefore projected to be $26 million. As a follow-on project to the DDC project the DDC loan portfolio of $17.4 million (subsequently reduced to $13.4 million) would be transferred to the MTCF Project to be available for new investment as the old portfolio was liquidated. A total of $43.4 million was to be available from all sources for investment purposes as follows:

Market Town Project	$21.0 million
DDC loan portfolio	17.4 million
PAPO	5.0 million
	$43.4

Central to the success and long term viability of the MCTF Project is the means by which the operating costs of the UCFs and the PCU are covered. As noted above, the start-up and operating expenses of the PCU are provided by Project grant funds. This subsidy will, however, cease at the end of F/Y 1989 at which time the PCU was projected to be self-supporting. The UCFs are subsidized by the respective DDCs, with such assistance expected to continue through the end of the project in 1991.

In accordance with the terms of the Project Paper the UFCs and the PCU were projected to become self-supporting through income generated from the investment portfolio. From the interest earned from the sub-projects the ICIs were projected to recieve 5%, the UCFs 3%, and the CPU 1%, with the balance going to the Capital Fund for relending. (The UCF and PCU participation was subsequently changed to 2.6% and 1.4% respectively).

A recent analysis undertaken by the Mission and the PCU concluded that the Project is not progressing at the pace originally anticipated, particularly in the area of sub-project loan placements. This has the effect of limiting the "spread" income available to the UCFs and the CPU thus delaying the point at which the UCFs and the PCU will reach the point of self-financing.

In accordance with the original SOW, the primary purpose of this analysis is to identify potential problems of under performance in meeting self-financing goals.

CONCLUSIONS AND RECOMMENDATIONS:

The primary conclusion of this analysis, and that of the PCU/AID, is that performance through December 31, 1987 has not achieved the interim goals as set forth in the Project Paper, with particular reference to the investment component. The most obvious indication of under-performance is the actual total of sub-project placements of $14.9 million as compared with projected placements of $22.8 million, a short-fall of 35%.

As a result of a smaller than anticipated loan portfolio it will be necessary for the various participants in the Project to increase Project promotion at the UCF/ICI level in order to substantially expand the sub-project loan portfolio. Such promotion would be designed to increase the flow of spread income to the DCFs and the PCU to achieve self-financing, and, at the same time, to further project goals of rural and sub-urban development in Bolivia

In order to achieve these goals the following recommendations are presented for consideration by the Mission and the PCU:

1. That the PCU, together with the UCFs undertake an analysis of current and potential ICIs to determine the attitude of the banks with reference to any problems which may be limiting ICI participation, including potential profitability.

2. That the PCU undertake an analysis, similar the No. 1, in order to determine the capabilities of each of the UCFs.

3. That the PCU make every effort to have DDC loan accounts reconciled in order that the portfolio be transferred and the Project projections justified.

4. That, in the interests of simplying sub-project policy guidelines, the PCU review in detail the restricted elements included in the attached AID/PCU analysis against the appropriate AID Handbooks.

5. That AID proceed with an insitutional analysis of the MTCF Project similar to the financial analysis now being undertaken.

6. That the PCU review the interest spread structure on a continuing basis, not only in recognition of a potential drop in general interest rates, but also with a view to adjusting the rates where project volume may be providing the UCFs and the PCU with income far in excess of operating costs.

7. That, in view of the analyses suggested above and the remaining uncertainties concerning the future progress of the Project, the Mission consider advancing the date of the interim evaluation to sometime within the next several months.

KEY ISSUES ADDRESSED

I. In order to address the immediate concerns of the Mission with regard to self-sustainability and the near-term financial viability of the MTCF Project the recently completed analysis carried out by the PCU/AID was reviewed as follows:

Comment:

The purpose of the analysis under review (Attachment I) is to compare the present status of the MTCF Project with Project Paper projections and to present certain alternatives to those projections which might better accomplish project goals on both a short and long term basis.

The primary conclusion of the analysis is that performance through December 31, 1987 has not achieved the interim goals as set forth in the Project Paper, with particular reference to the investment component. The most obvious indication of under-performance is the actual total of sub-project placements at year-end 1987 of $14.9 million as compared with projected placements of $22.8 million, a short-fall of 35%. This short-fall, in itself, is the key to the potential problem of UCF/PCU inability to cover operating expenses and to become self-sufficient when subsidies are scheduled to end in 1991 and 1989 respectively.

Although there are a number of reasons for under-performance, some of which concern policy and institutional considerations, the single most important issue was the time required for intitial Project implementation. Records indicate that although the Project Authorization was signed in July of 1986, no Market Town funds were disbursed until October of 1987. The interim period was used, presumably to establish the PCU, hire staff, and to retain the team of outside consultants. The fault lies somewhat with a Project Paper that was optimistic to an extreme in its first year projections. It would appear, however, that initial implementation should have been accomplished in a shorter period than was, in fact, the case

It appears, however, that the Mission and the PCU have become aware of the lack of progress in the Project and a sense of urgency is evident in the stepped-up efforts to complete implementation and to put the Project back on track.

Other indications of under-performance, as noted in the PCU/AID analysis are as follows:

1. Placement of DDC funds were projected to be $17.4 million by year-end 1986 but reached only $13.4 million by December 31, 1987.
2. Sub-projects funded from MTCF were projected to be $6.5 million for 1987 versus actual placements of $1.5 million.
3. Reflows from DDC placements at the end of 1987 were approximately 50% of the $1 million anticipated.

An extended implementation period was, undoubtedly, responsible for limited use of MTCF Project funds but the shortfall in the placement and collection of DDC funds raises other questions with regard to original Project Paper assumptions.

In response to under-performance the AID/PCU analysis proposes alternative scenarios to move the project toward meeting short and long term goals. The alternatives are set forth in a series of tables using certain variables that are designed to demonstrate when the PCU and UCFs will become self-sustaining.

The results of these alternative scenarios indicate that the PCU shows a consistent surplus throughout the period under analysis while the most optimistic projections for the UCFs indicate 1991 as the first year where operating costs will be covered by interest spread income. However, a review of the tables illustrating the various alternatives include calculations that do not support certain Project Paper assumptions that are still presumed to be valid. These calculations, when adjusted, will change the conclusions concerning UCF/PCU potential profitability. The inconsistancies are as follows:

- The illustrative tables per Attachment I show an annual operating deficit for the UCFs which is carried forward each year, thus creating an accumulated loss which must be liquidated to reach a break-even point. If the assumption that the DDCs will continue to cover UCF losses through 1991 remains valid the annual deficit should not be carried over each year.

- For the PCU the tables include spread income as a surplus in recognition of the fact that actual operating costs are 100% covered by AID grant funds. These surpluses are carried foward annually through 1989. However, the spread due to the CPU for the first three years of the Project is to be contributed to the Capital Fund in accordance with the terms of the Project Paper.

A new table has been developed using many of the same assumptions included in the PCU/AID analysis with regard to "spread" interest earned, portfolio goals, etc. PCU expenses and spread interest earned have been adjusted. The carry-over of the annual loss for the UCFs has been deleted as has the carry-over of the annual surplus of the PCU. As indicated above, these adjustments will make a significant change in the point at which the UCFs and PCU will become self-financing as follows:

1. The operating expenses of the UCFs will be entirely covered by interest earned during the second half of 1990 at which time DDC subsidies will no longer be necessary.

2. On an annual basis interest spread income in 1990 will also put the PCU on a self-sustaining basis without further grant assistance from AID.

A major element toward meeting these goals is the new sub project projections and the resulting total loan portfolio from which spread interest earned is calculated. The basic assumption is that new sub-projects totalling $6.5 million will be approved and disbursed in each of the years from 1988 through and including 1990. In addition, it is projected that reflows from the DDC portfolio in the amount of $1.2 million, $2.0 million, and $3.0 will be reloaned as per attachment II to achieve a total outstanding loan portfolio of $29.5 million at year-end 1989 and 37 million at year-end 1990. At this level of lending interest spread income will be sufficient for both the PCU and the UCFs to become self-sufficient as AID grant assistance and DDC support is scheduled to end.

Experience to date indicates that new loans of $6.5 in 1988 and 1989 plus the the re-lending of substantial reflows as indicated above is a goal that may be difficult to achieve. However, if such a goal cannot be achieved it will be necessary to find other sources to support the PCU. (The UCFs will continue to be subsidized by the DDCs until 1991)

The following table, together with the explanatary notes and assumptions, will substantiate the above commentary. It should be emphasized that, in addition to the volume of new sub-projects required to reach Project goals, it is assumed that the entire program will run smoothly and in accordance with established operating procedures.

In developing the projections included in the attached Table the operating expenses of the UCFs and the PCU are the constant. From that point the size of the sub-project loan portfolio necessary to generate sufficient spread income to support those operating expenses was calculated.

Additional assumptions and explanatory notes are as follows:

A. A total loan portfolio of $22 million at year-end 1988 and $29.5 million at year-end 1989 will be required to generate sufficient spread income to the PCU and UCFs in order to achieve self-sufficiency.

B. Loan portfolio losses would be:

DDC:	30%
MTCF:	5%
Reloaned Reflows:	5%

C. New MTCF sub-projects loans (millions) as follows:

	1988	1989	1990	1991
MTCF:	$6.5	6.5	6.5	.5
DDC:	1.2	2.0	3.0	4.4
	7.7	8.5	9.5	4.9

D. Section D of the accompanying chart indicates the distribution of the 8% interest spread remaining after the 5% retained by the ICIs. 2.6% and 1.4% are paid to the UCFs and PCU respectiviely, with the balance paid into the Capital Fund. It should be noted that the spread income due to the PCU is paid into the Capital Fund during the period in which PCU operating expenses are covered by AID grant funds.

E. Section I reflects the break-even point of the UCFs based on spread income. The DDCs are, however, commited to subsidising the UCFs through the end of 1991, should it be necessary to do so.

F. Section II illustrates the break-even point for the PCU reflecting the end of major AID grant support at year-end 1989. The AID support in 1990 and 1991 are the costs of the Project Director funded from grant funds through the end of the Project and is a separate line item.

PROYECCION DE COLOCACIONES, RECUPERACIONES E INGRESOS EN DOLARES

[CUADRO REVISADO]

DETALLE	1987	1988 1er. Sem.	1988 2do. Sem.	1989 1er. Sem.	1989 2do. Sem.	1990 1er. Sem.	1990 2do. Sem.	1991 1er. Sem.	1991 2do. Sem.	1992 1er. Sem.	1992 2do. Sem.
A.-COLOCACIONES											
1) D.D.C.	13,396,333										
2) FOCAS	1,458,717	3,000,000	3,500,000	3,500,000	3,000,000	3,500,000	3,000,000	541,283			
3) RECUPERACIONES	509,400	452,048	765,143	857,752	1,174,420	1,279,428	1,760,686	1,841,237	2,547,381	2,567,828	3,291,550
TOTAL	15,364,450	3,452,048	4,265,143	4,357,752	4,174,420	4,779,428	4,760,686	2,382,520	2,547,381	2,567,828	3,291,550
B.-RECUPERACIONES											
1) D.D.C.	379,860	353,801	353,801	464,756	464,756	464,756	464,756	464,756	464,756	464,756	464,756
2) FOCAS				115,482	115,482	630,065	630,065	1,144,649	1,144,649	1,659,232	1,659,232
3) RECUPERACIONES				40,328	40,328	76,115	76,115	197,263	197,263	390,179	390,179
TOTAL	379,860	353,801	353,801	620,565	620,565	1,170,935	1,170,935	1,806,667	1,806,667	2,514,167	2,514,167
C.-CARTERA TOTAL											
1) TOTAL COLOCACIONES	15,234,910	18,234,910	21,734,910	25,738,861	29,292,716	33,451,579	37,041,330	38,252,915	38,993,629	39,754,790	40,532,174
2) CAPITALIZACION		581,588	411,343	503,951	553,855	658,863	589,751	670,302	740,714	761,161	777,384
3) [MONTO NO RECUPERABLE]		151,629	151,629	359,010	359,010	595,359	595,359	865,167	865,167	1,172,211	1,172,211
	15,234,910	18,664,869	21,994,624	25,883,803	29,487,561	33,515,083	37,035,723	38,058,050	38,869,177	39,343,740	40,137,346
D.-INTERESES	817,858	609,396	746,595	879,785	1,035,352	1,179,502	1,340,603	1,481,429	1,522,322	1,554,767	1,573,750
1) UCF's	236,270	198,054	242,643	285,930	336,489	383,338	435,696	481,464	494,755	505,299	511,469
2) UCP	0	0	0	40,000	40,000	206,413	234,606	259,250	266,406	272,084	275,406
3) F. CAPITALIZACION	581,588	411,343	503,951	553,855	658,863	589,751	670,302	740,714	761,161	777,384	786,875
I. U.C.F.											
INTERESES	236,270	198,054	242,643	285,930	336,489	383,338	435,696	481,464	494,755	505,299	511,469
APORTE CORPORACIONES	443,340	197,164	152,575	109,288	58,728	11,984					
SALDO ANTERIOR		0	(0)	0	0	(0)	104	40,582	126,829	226,365	336,446
TOTAL INGRESOS	679,610	395,218	395,218	395,218	395,218	395,322	435,800	522,047	621,583	731,664	847,915
GASTOS DE FUNCIONAMIENTO	679,610	395,218	395,218	395,218	395,218	395,218	395,218	395,218	395,218	395,218	395,218
SUPERAVIT / [DEFICIT]	0	(0)	0	0	(0)	104	40,582	126,829	226,365	336,446	452,697
II.U.C.P.											
INTERESES	0	0	0	40,000	40,000	206,413	234,606	259,250	266,406	272,084	275,406
FINANCIAMIENTO AID	434,299	861,776	861,776	584,026	584,026	38,894	38,895	48,154	48,154		
SALDO ANTERIOR		0	0	0	0	0	6,412	41,019	100,269	166,675	238,759
TOTAL INGRESOS	434,299	861,776	861,776	624,026	624,026	245,307	279,913	348,423	414,829	438,759	514,165
GASTOS DE FUNCIONAMIENTO	434,299	861,776	861,776	624,026	624,026	238,895	238,895	248,154	248,154	200,000	200,000
SUPERAVIT / [DEFICIT]	0	0	0	0	0	6,412	41,019	100,269	166,675	238,759	314,165

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PROBLEMS AND CONSTRAINTS

After approximately 18 months the Market Town Project is significantly behind schedule, with particular reference to sub-project activity. Considerable effort will be necessary to put the Project on track to the extent that the PCU and the UCFs will become self-supporting. There are, however, a number of problems and constraints which must be addressed, as follows:

1. Role of the ICIs

As the final supplier of funds to the sub-project borrower the ICI is probably the most important element within the process, as no other entity can presently assume the direct lending role. In view of experience to date it would appear that there has been some reluctance on the part of the ICIs to particiapate acitively in the Program. This may be attributed to lack of experience or interest in developing the expertise necessary to long term project financing, the perception that the spread available is insufficient, or a lack of familiarity with the program.

In commenting on the ICIs interest in participating in the Program it should be pointed out that, as the procedure is currently structured, the ICIs are taking the exchange risk in their loan operations which has significant implications with respect to profitability. Should current liquidity problems be resolved in the near future the ICIs would presumably revert to their traditional banking operations.

Recommendation: That the PCU, together with the UCFs undertake an analysis of current and potential ICIs to determine the attitude of the banks with reference to any problems which may be limiting ICI participation, including potential profitability. Using the information thus gathered a promotional effort should be undertaken to market the program to the ICIs. A similar effort has already been undertaken in this direction with little or no success. Nevertheless, such efforts will have to be continued since lack of participation by the ICIs will prevent the Project from moving forward as it is now structured. The role of ICIs is particularly significant in that one of the Project's primary goals is to develop and expand the project capabilities of the commercial banks.

2. Role of the UCFs

Assigned the investment promotion and development responsibility within the Program, the UCFs have a role almost equal to that of the ICIs. The degree to which the UCFs perform that responsibility will have a significant effect on reaching Project goals. At this point there seems to be some concern on the part of Mission and PCU staff as to the real effectiveness of the UCFs.

Recommendation: That the PCU undertake an analysis, similar to No. 1, in order to determine the capabilities of each of the UCFs. Because of different development potential within each of the nine Departments the UCFs have varying degrees of expertise and potential. With sufficient information on hand the PCU will be in a better position to determine what steps must be taken to ensure that the Program is being marketed effectively through the UCFs. As with the ICIs, the Project cannot move forward without successful promotion.

The analyses referred to above imply more than a one-time effort to ensure full understanding of the institutional constraints the Project must address. An ongoing sense of cooperation between the CPU, UCFs and the ICIs will be essential to the success of the Project.

3. DDC Sub-Project Loan Portfolio

One of the elements of the MTCF Project includes the transfer of the DDC loan portfolio to the new Project. To date this transfer has not taken place and there is some concern as to the value and collectability of the portfolio. Due to the wide fluctuations in rates of exchange in 1984 and 1985, and the resulting confusion it appears that the accounting records of the DDCs do not reconcile with those of the PCU. For this reason one of the assumptions of Attachment III is that a full 30% of the DDC portfolio will have to be written off. Although this figure may be excessive it was thought best to take a pessimistic view until such time as the situation is regularized. The importance of this situation is demonstrated by the fact that Project projections include relending of DDC loan repayments in order to reach portfolio goals. Should reflow figures be inaccurate total portfolio figures will also be inaccurate

Recommendation: That the PCU make every effort to have DDC loan accounts reconciled in order that the portfolio be transferred and the Project projections justified. It should also be noted that from a technical standpoint current reflows of the DDC portfolio are not subject to the same restrictions as new loans funded from the MTCF Project. Although this is a temporary technicality it will not be corrected until such time as the Capital Fund is formally established.

4. Sub-Project Limitations

In accordance with standard USAID regulations there are a number of restrictions placed on the type of sub-loans which can be funded under any USAID project. This includes, among other things, financing military equipment and products considered to be detrimental to the environment. The MTCF Project, however, also includes a number of other sub-project purposes that are considered to be restricted, if not totally prohibited. While these limitations may be perfectly valid in terms of AID regulations they do add to those elements of the Project which tend to limit ICI participation

Recommendation: That, in the interests of simplying sub-project policy guidelines, the PCU review in detail the restricted elements included in the attached AID/PCU analysis against the appropriate AID Handbooks. Where valid restrictions exist some notation should be included to indicate under what conditions exception to the regulations may be approved.

5. Institutional Considerations

Although this analysis is limited by the SOW to financial considerations there are several institutional situations that have, at least, the potential for impeding the efficient progress of the Project. This refers primarily to the number of different entities involved in administering, controling, and monitoring the Project.

Recommendation: That AID proceed with an insitutional analysis of the MTCF Project similar to the financial analysis now being undertaken. Although the Project Paper does not call for an evaluation until the mid-point of the Project the Mission may wish to arrange for an evaluation in the near future to facilitate a possible restructuring of the Project.

6. Interest Spreads

Although this analysis is directed primarily to short term considerations affecting progress of the MTCF Project, it is necessary to review the role of interest rate spreads as they relate to sub-project operating procedures. One of the constraints referred to above discusses profitability as one of the elements of ICI participation. It has been suggested that one of the adjustments that might be made to the Project would be increasing the 5% spread currently payable to the ICIs. Such an adjustment would, however, reduce the amount of the spread that would accrue to the Capital Fund and thus would eventually endanger the capitalization of the Project in the event of a drop in over-all interest rates.

Recommendation: That the PCU review the interest spread structure on a continuing basis, not only in recognition of a potential drop in general interest rates, but also with a view to adjusting the rates where project volume may be providing the UCFs and the PCU with income far in excess of operating costs. Although not specifically so stated, it would appear that income in excess of costs would accrue to the Capital Fund, at least in the case of the PCU.

II. This section of the analysis refers the Credit Operating Manual. Comments and recommended adjustments are as follows:

Comment:

The purpose of the Credit Operating Manual (Attachment II) is to provide the PCU, UCFs, and the ICIs with the basic guidelines for the operation of the MTCF financing facilities. A review of the Manual indicates that it does, for the most part, provide the participating organizations with sufficient information. The following additions and adjustments are recommended:

The introduction to the Manual refers to the sources of funding available to the Program but does not mention the $5 million from the Private Agricultural Producers Organization Project (PAPO). To date it is unclear as to whether these funds will be available. This situation should be resolved and the necessary adjustment, if any, should be made before the Manual is finalized.

Paragraph II, A, indicates the UCFs are to "undertake activities relative to evaluation, approval, control, and follow-up.....of sub-projects". Reference to the approval function should be clearly stated as approval of eligibility in accordance with project guidelines and does not imply approval of credit risk which is the responsibility of the ICIs

Paragraph II, B, should include a statement to the effect that the ICIs bear the credit risk for all sub-projects and are responsible for scheduled capital and interest payments to the Capital Fund in the event the sub-borrower fails to meet his committment. This will ensure that the ICIs will properly perform their collection responsibilities.

Paragraph II, D, enumerates the financial responsibilities of the Unidad de Control y Coordinacion de Proyectos (UCCP), a unit of the Ministry of Finance. It appears to be both inefficient and unnecessary to have the participation of the UCCP and it is recommended that the necessary steps be taken to have the function of this unit transferred to the PCU.

Paragraph II, F, refers to the requirement that AID approve any sub-projects in excess of $500,000. This should be adjusted to indicate AID review of such projects from a policy standpoint, as reqired by the Project Paper, to avoid the implication of credit risk approval.

Paragraph II, F, should also include the role of the AID Project Director as liaison between the Mission and the PCU.

Paragraph III, B, discusses the regional/geographical limitations of the project. The Project Paper specifically excludes Project assistance to the cities of LaPaz, Cochabamba, and Santa Cruz. Using the legal borders of these cities to determine eligibility rather than the effective economic area may not be in accordance with Project goals which emphasize development in the rural and sub-urban areas. The decision to expand areas elligible for Project assistance is, however, subject to interpretation by

Paragraph IV, A, refers to the eligibility of working capital loans when such loans are associated with additional investment in "activos" that will add to, or improve production. As working capital is usually referred to as funds required to purchase raw materials or to meet overhead expenses, financing "activos" implies financing fixed assets, which are not normally interpreted as working capital requirements. It is recommended that this point be further clarified in order to avoid future problems of interpretation.

Paragraph IV, B, that the project will consider financing up to 90% of the requirements of a sub-project, with the borrower providing 10%, either from his own resources or from funds borrowed from a financial institution. This latter percentage is to be increased progressively to 25% Presumably this means the sub-project criteria will change at an indeterminate time in the future rather than requiring an existing sub-borrower to increase his equity in a sub-project. The statement is, however, unclear and should be clarified.

It should also be noted with reference to Paragrah IV, B, that the Project, in considering sub-projects with no equity participation by the borrower, is entering the high risk area of venture capital finance. This type of financing is normally charactarized by taking an equity position in the project with the potential of very high return as a trade-off for very high risk.

Paragraph IV, E, discusses the foreign exchange aspects of sub-project financing and should clearly define the procedure by which currency conversion is effected at the time a loan is granted and at the time it is repaid, including each ammortization and interest payment. It is recommended that all documentation be reviewed to ensure that the borrower is aware that he is financially responsible for currency fluctuations. The ICIs should be equally aware of their risk in the event a sub-borrower does not meet his commitments.

Paragraph IV, G, refers to the rate of interest being variable. The circumstances under which the rate will vary should be stipulated and whether or not existing loans might be subject to interest rate adjustment.

Paragraph IV, H, sets forth the distribution of the interest currently applied to sub-projects. The guidelines specify the percentages due to the ICIs, UCFs, and the CPU, with the balance being applied to the Capital Fund. These funds are provided to the UCFs and the PCU to cover operating expenses and to provide eventual self-sufficiency. What remains unclear, however, is the disposition of interest when funds due to these units far exceed their operating cost requirements. In the case of the PCU operating expenses are subject to AID review and when the PCU achieves self-sufficiency excess spread income can be returned to the Capital Fund. However, neither AID nor the PCU have a similar right to inspect the accounting records of the UCFs with the result that operating expenses at the UCFs could expand to meet interest income.

It is suggested therefore that AID/UCF investigate the possibility of obtaining the right to audit the financial records of the UCFs or, as an alternative, request the assistance of the DDCs in determining at what income level the interest rate spread to the UCFs will be subject to adjustment.

In the meantime it is recommended that Paragraph IV, H, be amended to clearly reflect the possible adjustment to interest rate spreads as the situation requires.

Paragraph IV, I, indicates that, in addition to the applicable rate of interest, 1% will be charged to the sub-borrower to be placed in a Guarantee Fund administered by the MTCF Project. How this Fund is to be operated is not spelled out in terms of when and by whom a claim can be made against the Fund. If this is the subject of a separate document a summary should be include in the Operating Guide. Otherwise, a procedure should be developed and included in the Guide in order that potential ICI lenders will become aware of the benefits of a guarantee program.

Paragraph V, A2, discusses the credit approval process by the ICIs. In addition to the listed documentation required for presentation to the ICIs by the sub-borrower should be s statement to the effect that the ICI may require additional documentation or information consistent with their own credit criteria.

Paragraph V, A3, is concerned with the approval process within the program. Reference to "refinanciamiento" is used throughout the Program description. The MTCF Program is not, in fact a refinancing program. If the ICIs were sub-project lending facilities with their own funds and subsequently requesting to have that loan refinanced under the terms of the Project then the terminology would be accurate. Under existing procedures the ICIs are merely using the Project as an alternative source of lending funds and the correct term would refer to a program for "financiamiento".

The terms of the "Carta de Credito y Garantia" referred to in Letter a,iv of the same paragraph should be clarified as to the basic terms and commitment included in that document.

As several issues relative to the implementation of the MTCF Project have not yet been finalized the Operating Guide should include a statement to the effect that the Guide is subject to amendment as conditions require and which will affect Project operating procedures.

SFM Amendment - Private Sector Policy Dialogue Project

by Robert Bond

BOLIVIA

Working Outline

SFM Amendment

Private Sector Policy Dialogue Project

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I. [illegible] PROJECT DESCRIPTION

A. Summary and Recommendations

The Paz Estenssoro government has succeeded remarkably in stabilizing the Bolivian economy, but has yet to achieve positive results from the Plan for Economic Reactivation announced in _____ 1987. One of the major reasons for the slower than desired results is lack of investor confidence, brought about both by a complex and cumbersome policy framework which discourages private investment and by the perception among business leaders that the private sector does not play an influential role in policy formulation. As a result, there is skepticism within the private sector that the GOB has taken sufficient steps to stimulate private savings and investment critical to economic recovery, as well as doubt about whether this government or its successor will stay the free-market oriented course.

After a rigourous methodology of document review, interviews, economic and financial data collection, and direct interaction with private sector association leaders, the Mission has concluded that the lack of meaningful economic policy dialogue between governmental authorities and an institutionally strong private sector is a significant hindrance to economic growth and development. Four problems inhibit the development of a productive public-private sector dialogue on critical economic issues. First, existing channels of communication between the government and private sector are ad hoc, fragmented, and infrequently used, resulting in economic policies which have not been designed with adequate consultation with business leaders. Second, the private sector is at a serious disadvantage vis-a-vis the government in analyzing economic policy measures or in formulating policy options. For example, the GOB is supported by UDAPE (which receives USAID funding), but no counterpart economic analysis unit exists within the organized private sector. Third, private sector associations are generally weak, lacking leadership, technical staff, membership services, and financial resources to build consensus within the private sector (as well as to deepen and broaden

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its membership base) and speak with one voice on national policy issues. Finally, to achieve significant improvement of the policy and regulatory environment, the organized private sector not only needs to be able to frame policy positions, but communicate them effectively.

Based on this analysis, a three-year Private Sector Policy Dialogue Project has been designed which attempts simultaneously to strengthen selected private sector associations and to engage in an active program of policy research, communication and advocacy. The strategic thrusts of this project are: (1) to build consensus within the private sector on policy reform issues; (2) to strengthen the policy analysis and communications capacities of the private sector; (3) to assist in the strengthening of private sector organizations, including expanding their membership bases through the provision of more and better services.

The Project will have two components: policy reform and institutional strengthening.

The policy reform component will include three activities. Assistance will be provided to selected private sector associations (CNPP, Chambers of Santa Cruz and Cochabamba) in defining the private sector's economic policy agenda, primarily through a carefully structured program of conferences, seminars, and workshops. The Project will also assist in the creation of a private sector capacity to research and analyze policy issues, thereby enabling it to engage in meaninful debate with the GOB, by supporting the establishment of economic policy units in key private sector associations. Finally, the Project will help the private sector develop the communications and advocacy skills required to achieve private sector consensus and lobby these positions effectively.

The institutional strengthening component of the Project will assist associations improve in such areas as organizational process and management, strategic planning, membership services and campaigns, information systems, communications, and economic analysis. This

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private sector leaders of representative associations, and yet is prepared to place the blame for failure to achieve economic growth targets on the shoulders of entrepreneurs. In addition, private sector leaders are cautious, noting that an election year is approaching and that the government party's recent electoral reverses (finishing fourth in nationwaide municipal elections) makes for a very uncertain business climate.

2. Formal Private Sector Organizations

A wide array of formal private sector groups exist in Bolivia, ranging from a business confederation to several small agricultural producers associations. Given the division of the private sector into a few large family groups and many small businesses, it is hardly surprising that these groups have different interests and needs. However, most of these organizations share a number of common traints: they are generally poorly funded and staffed, unable to provide their members with basic services, and incapable of formulating and advocating policy positions before the government.

Perhaps the largest and most influential business association at the national leel is the Confederación de Empresarios Privados de Bolivia (CEPB). The CEPB, founded in 1962, is composed of twenty-six member organizations, seven of which are federations of businessmen from Bolivia's departments. Most of the country's private productive and service sectors are represented by the CEPB; members include the Chamber of Commerce, the Chamber of Industry, the Banking Association, the National Mining Chamber, the Construction Chamber, and others. (See attached list of CEPB members.) The CEPB's goals are to represent the private sector in national policy-making, and to provide informatin and other business services to its members. At present, it is attempting to focus on the need for a new investment law, the problems of small producers, non-traditional export promotion, and private sector participation in dialogue in planning for economic reactivation. Although the CEPB has no economic studies

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component will help to expand the membership base of the private sector, create the institutional conditions required to advocate policy reform, and develop grass roots support for private sector-led growth.

B. The Private Sector and Private Sector Associations

1. The Private Sector

Bolivia's private sector is weak, even by Latin American standards. The combination of an economically predominant and nationalistic state with a traditional, risk averse entrepreneurial class retarded the development of aggressive business groups. The formal private sector consists of a few large groups with interlocking interests in banking, commerce, mining, and industry, and a great many small investors/entrepreneurs, particularly in agriculture but also in forestry, artisanry, and mining.

During the 1970s, the Bolivian private sector was an important source of investment, accounting for almost 45% of fixed capital formation. However, during the turbulent 1982-85 period, the private sector began to divest in a major way. Price distortions, the loss of Bolivia's international creditworthiness, strikes, and doubts about the course of economic policy caused a contraction of the private sector's share of fixed capital formation from 4.3% of GDP in 1981 to 1.2% in 1985.

Currently, the private sector has yet to respond adequately to the government's economic reactivation plan announced in _____ 1987. While private sector leaders acknowledge and applaud the government's impressive successes in stabilizing the economy, they continue to emphasize the policy constraints to increased investment and job creation, and note that most of GOB's economic policies designed to achieve growth were conceived in a vaccum. There is a strong belief that the government designed its economic package without the active involvement and participation of

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2. Constraints to a Private Sector Response

The ability of the Bolivian private sector to respond to government initiatives and take the lead in stimulating savings, increased investment, and employment is limited by a number of serious constraints. These constraints, briefly summarized below, are related to the policy environment and the nature of the private sector.

a. Policy Environment

The policy environment in Bolivia over the past decade, and especially the chaos of the Siles Guazo years 1982-85, has played an important role in shaping the attitudes, actions, and capacities of the private sector. Some of the critically important aspects are:

- The historical trend toward statism, a predominant role for labor in economic policymaking, and the use of government "privileges" and deals to undermine private sector unity.

- The extraordinary web of often contradictory policies and regulations that increases costs and act as a disincentive to investment and job creation. These regulations represent a high economic cost associated with compliance with the regulations and trámites of the system.

- The lack of well-trained middle management specialists and an unskilled work force combine to limit investment. Stilled technicians are in short supply in Bolivia as is an educated, trained work force, particularly in comparison to neighboring countries.

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- A generalized belief that the state acts in a capricious and arbitrary fashion regarding the impartial application of law and respect for private property.

- The failure of policies to provide sufficient incentives to stimulate savings, investment, and exports. While new incentives are being discussed by the government (e.g., tax policies, recognition of business losses, etc.), there is skepticism about their adoption and/or implementation.

B. Private Sector Institutions

In spite of the fact that formal private sector organizations were established early in Bolivia (the Chamber of Commerce is over 100 years old, and the National Chamber of Industries dates from 1931), they remain weak institutions. Most business groups are characterized by weak membership support, low levels of financing, poor services to members, and a lack of institutional capacity to analyze national economic policies and propose solutions to the government. Compared to the institutional development of private sector organizations among its Andean neighbors, Bolivia's private sector groups are seriously underdeveloped.

A major constraint to the development of private sector-led growth in Bolivia is the weakness and fragmentation of the business class. Some general observations about the private sector in Bolivia would include:

- The inability (to date) of the private sector to unite to lobby effectively for policy changes of interest to all private business.

- The relatively weak leadership of many private associations in the formal sector because of the

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tendency of the most important entrepreneurs to pursue their business interests separately.

- The absence of institutional mechanisms to resolve conflicts in the private sector--the existence of CNPB notwithstanding.

- The lack of a broad private sector "identity" informorating entreprises from all economic sectors.

- The lak of a sound economic and technical analysis capacity to promote policy change.

- The absence of mechanisms through which the private sector can initiate and sustain dialogue with the public sector. Very few institutional mechanisms exist to engage the government in policy disussins of critical importance to the private sector.

To summarize, the problem is how to stimulate the savings and investment (domestic and foreign) required to achieve economic growth and improve the standards of living of Bolivians. Given the magnitude of the problem, and the limited resources available to the public sector, the answer must be found in substantial private sector investment to create jobs, froegin exchange, and wealth for Bolivia's expanding population. While the GOB is focussed on the energy, mining, and transportation sectors, steps must be taken to encourage complementary private sector investments. This project is designed to address the two principal constraints to economic reactivation: the inadequacies of the existing policy/regulatory framework (high interest rates and the general unavailability of working capital, lack of incentives for investment/exports, etc.), and weaknesses in the private sector and its institutions.

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Given the new economic rules-of-the-game, business associations feel a need to develop the capacity to represent effectively their members' interest in the policy-making arena. The private sector wants to have a respected seat at the table with government authorities, but realizes that it does not have the analytical capacity to propose and defend policy options. At present, the organized private sector can do little more than complain about government actions and offer vague proposals for investment incentives and export promotion activities. Clearly, no where in the private sector is there a policy analysis unit/capacity which corresponds to the government's UPEPP, established with USAID/Bolivia support.

III. Project Rationale, Strategy, and Activities

A. Project Rationale

The strategic thrust of this project is threefold: (1) to build consensus within the private sector on needed economic reforms to encourage increased private investment and employment; (2) to develop within the private sector the technical capacity to research, analyze, and lobby effectively for policy reforms; and (3) to create and strengthen private sector associations to widen the representativeness of business interests. These objectives will be accomplished through institution building, studies and publications, conferences and seminars, "lobbying" activities, and technical assistance and training.

Neither CEPB, its affiliate organizations, nor other private sector entities have the professional capacity to research and analyze policy options, advocate policy positions in an effective manner, or communicate and defend private enterprise and free market principles to the government of the general public. While there is a clear desire on the part of CEPB's leaders to expand their policy analysis and advocacy role, the organization lacks the technical and financial

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resources to initiate and sustain a policy dialogue with the executive and legislative branches. This lack of resources (especially in the economic studies and communications areas) also impedes the development of a greater public awareness of the positive role private enterprise can and should play in Bolivia's economic and social development.

Mission representatives and technical consultants have had in-depth discussions with private sector leaders including the presidents, directors and executive staff of over twenty Bolivian private sector associations and chambers. All concerned are actively aware of the private sector's deficiencies with respect to policy making, citing inadequate information and insufficient analytic capacity. A broad consensus exists as well on the need to improve communications within the private sector, and between the private sector and other sectors of Bolivian society. The regional chambers, for instance, are making a major effort to improve communications "up" to the lead organizations in La Paz and "down" to their membership base.

The Project Amendment is specifically designed to support communications initiatives such as this, as a part of a broader effort to develop the private sector's capacity to analyze and formulate national economic policies. This approach acknowledges that policy reform analysis is a process and not an end-product. The Project Amendment is conceived as one which will lead to the creation of channels of communication and more open discussion within the private sector, and between the private sector and other sectors of Bolivian society. At the same time, the Project Amendment will develop studies and data banks which will help the participants focus their attention on key issues while providing a deeper understanding of the problems facing the Bolivian economy and nation. Studies and data would include an inventory of Bolivian industrial production and capacity, analyses of key problems constraining private investment (including the financial system), compilation of data banks on investment

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opportunities in Bolivia's departments, and specific studies targetted to support economic policy reforms conducive to private sector development.

Although most of the associations visited were competent, strongly motivated, and capable, they clearly lacked the financial, organizational, analytic and communications resources to play an effective policy role. In addition, the interviews revealed that there is a very high degree of complementarity between the two components of the Project Amendment. Strong organizations are needed to provide the format for discussion and analysis of public issues, to disseminate the views of the private sector and to generate support for specific policies. At the same time, these associations must have the capacity to organize and direct discussion groups, to gather information and to carry out surveys, and to act as a clearing house for ideas, studies and information.

The proposed amendment is thus in full conformance with AID policy directives, specifically those contained in the AID policy paper on Private Enterprise Development and Financial Markets Development. The Amendment components will be high visibility, high impact programs which will support the LAC objective of strengthening the private sector.

Bolivia's extensive network of private sector associations, headed by CEPB, provides a unique opportunity to support economic policy reforms leading to sustained economic growth. Moreover, the leadership of the Bolivian private sector recognizes that the country is at an important economic crossroad, and that it must do more to stimulate savings and investment, restore business confidence, build consensus on appropriate economic policies within the private sector, and contribute to an informed economic policy dialogue with the government. Business association leaders are anxious to provide more and better services to members, to broaden their membership bases, to expand their analytical capacities to compete on a more equal footing

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with the government, and to lobby more effectively for reforms conducive to private economic activity. There is growing awareness among key business leaders that the private sector's inability to organize effectively is not in its long-term interests nor those of the nation; there is a growing willingness and desire to strengthen their organizations.

D. Project Strategy

To take advantage of the current situation, this Project Amendment attempts simultaneously to strengthen private sector organizations and initiate a series of studies, seminars, publications, and data banks. Private sector institutional development and policy advocacy must go hand-in-hand if CEPB and other business associations are to achieve credibility, promote private sector consensus, and contribute to an improved economic policy environment. The Project Amendment consists of two interrelated components. The first would provide support for private sector efforts to develop their capacities to anayze issues, define objectives and develop consensus for specific policies. The second would provide organizational support to strengthen selected private sector organizations.

The first of these components would permit the Mission to work directly with the private sector's lead organization, the Confederación de Empresarios Privados de Bolivia (CEPB), and eventually other selected private sector associations, to strengthen their capacity to lead, manage and conduct technical analyses for policy reform. At the same time, private sector institutions must be strengthened from within. The second component provides technical assistance to help private sector associations improve their services to members, internal and external communications and over-all management as well as developing the ability to lobby in support of private sector policy reform initiatives.

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department, it is exploring the possiblity of establishing a policy analysis unit devoted to investment promotion, export promotion, and small business deelopment.

The financial sector is represented by two business associations. The first, ASOBAN was formed in 1965 by private financial institutions to lobby the government, provide information services to its members (credit reports, banking statistics) and conduct some training courses. This latter function will soon be expanded significantly with the support of USAID/Bolivia. ASOBAN has affiliated regional associations in Oruro, Sucre, Cochabamba, and Santa Cruz. The second banking association, Unión de Bancos Bolivianos (UBB), was created in 1972 to handle loans jointly by the private Bolivian commercial banks.

One of the newest business organizations is FEBOPI, the federation of small industries. FEBOPI was formed in 1985 by a group of small businessmen who felt their needs were not adequately served by the National Chamber of Industry. FEBOPI has seven regional members, where it has organized associations of small businesses (ADIPI). Its goal is to provide members with services (information, training) and eventually to lobby the government. With an existing internal budget of only $12,000, it faces difficult financial constraints to organizing a potentially important part of the Bolivian private sector.

Bolivia's regional departments are well represented by business groups. The Federations of Businessmen in Santa Cruz and Cochabamba are both strong and representative. More importantly, private agricultural organizations in these departments are organized and growing. Agricultural Chambers exist in some departments, supplemented by a network of syndicates, producer associations, and cooperatives. USAID is currently addressing the organizational, finanial, and services requirements of these groups through its PAPO project.

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Given Bolivia's strong regionalism, and the existence of organized federations in Cochabamba and Santa Cruz, the Project will function at the national and departmental levels. It will assist in strengthening communications and relationships throughout Bolivia, and lead to the formulation of economic policies supported by the entire private sector.

It is recommended over the two-year life of the project (LOP) that USAID/Bolivia provide funding to support long- and short-term technical assistance in policy reform and organizational development.

C. Project Activities

1. Policy Reform Technical Assistance

This component is designed to provide the private sector with assistance in developing the capacity to analyze and formulate national economic policy proposals in the areas of investment, fiscal and monetary policies, export incentives, small business development, price controls and others. The Mission proposes to channel such support through the Confederation of Bolivian Private Sector Businessmen (Confederación de Empresarios Privados de Bolivia—CEPB), the lead private sector association made up of representatives of all of Bolivia's regional and sectorial chambers and organizations, as well as other leading private sector groups.

Within this component, special emphasis will be given to developing the private sector's ability to analyze issues—on its own, and jointly with other sectors of Bolivian society. The effort will consist of three subcomponents.

— helping establish the private sector's agenda and priorities;

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— Helping create private sector capacity to analyze key issues; and

-- Helping the private sector to develop communications and lobbying skills.

a. Defining the Private Sector's Agenda

Professional asistance and financial resources will be provided to CEPB and selected organizations to help define the priority economic issues affecting Bolivia and the private sector. Critical to this process would be a carefully structured series of meetings, seminars, and conferences with broad national participation. This would assist CEPB and other associations develop a sense of common identity and purpose among businessmen, disseminate research results, strengthen linkages with the public sector and build the prestige of the private sector. Four major types of forms are suggested: (1) An Annual Assembly of CEPB, which over time would become the major forum for business-government dialogue on national economic issues and a barometer of government-private sector relations; (2) Major conferences on themes of national and regional importance; (3) A Congressional luncheon seminar series bringing together buiness leaders and key Members of Congress; and (4) An Economic Issues Seminar based on studies of key policy issues.

1) Annual Assembly. The Annual Assembly should become an event of national importance, in which private sector associations gather to assess the national economy, propose and ratify specific policy recommendations on economic issues affecting the development of the private sector, engage in open and active dialogue with members of the economic policy cabinet and representatives from labor, the Armed Forces, and Congress. The annual meeting

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should be a two-day affair, featuring speeches by government officials (e.g., the President, the top economic policy makers, etc.), panel discussions (e.g., a cross-section of speakers on labor issues, investment, monetary policy, or export incentives), and working group sessions to consider and debate policy resolutions proposed by member associations.

2) Major Conferences. Every other year (1989, 1991) CEPB should organize a three-day conference on a topic of major national and regional importance to the development of the private sector. Two such conferences are outlined in Chart ___. The first, on the role of the private sector in Bolivia's development, would bring together private sector leaders from around the region to discuss this theme. CEPB would bring together private sector leaders from around the region to discuss this theme. CEPB would organize and finance conference participation, and be responsibile for preparing/contracting studies on appropriate topics. The second conference recommended would focus on the need for incentives to private investment and the reforms in the policy and administrative framework required to stimultate savings and investment.

Chart 1 Here

3. Congressional Seminar Series. Three or four times a year, CEPB, with the support and participation of other chambers, should organize structured meetings with congressional leaders to discuss legislation pending in Congress or the Executive branch which would affect private sector interests and Bolivia's development. Meetings should be on an off-the-record basis, and focus on presenting

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Chart I

Possible Conferences and Studies

Private Sector and Development	Investment Incentives
Objective:	
-- Modify attitudes/understanding of private sector contribution to development in Bolivia. -- Strengthen CEPB's image/role as peak association.	-- Analyze what is require to stimulate savings an investment in Bolivia.
Studies:	
-- History of private sector/state relations. -- Contribution of private sector in various economic activities (e.g. employment, growth, income, etc.) -- Challenges facing government and private sector to achieve sustained growth. -- Experiences of other Latin American countries on role/definition of private sector. -- Privatization issues.	-- Impact of monetary and credit policies on savings. -- Main constraints to private investment in Bolivia and region. -- Impact of exchange rate policy on investment in export industries. -- Administrative Reforms.
Activity:	
-- Three-day Conference - 1989. -- Participation open to a cross-section of Bolivians. -- Invited speakers/paper presenters from private sector associations.	-- Preparatory Workshops. -- Three-day Conference - 1991. -- Commissioned studies/papers.
Publications/Media Events:	
-- Press releases. -- Television coverage -- Book compiled from Conference papers.	-- Press releases. -- Position paper to the government. -- Reports or Conference proceedings.

Insert A

The purpose of these meetings would be to present private sect ideas (based on thorough research and analysis) on how tl legislative and administrative regulations which impede privat activity might be resolved. Topics to be discussed migl include the reorganization of the banking system, privatizatic issues (e.g., asset valuation, debt conversion), credit ar monetary policy, and export promotion.

Insert B

It is recommended that early in the project two issues b examined: 1) contraband trade and the role of the informa sector, and 2) human resource needs for entrepreneurial activity These two issues are bound to be of growing importance t Bolivia's economic development, and are critical to enhance government private sector relations.

Insert C

The previous section has outlined the substantive policy area the economic policy unit will cover: monetary and credit policy savings and investment; export promotion; and the economi contributions of a responsible private sector. Nevertheless considerable flexibility should be built into the project t allow the private sector to define and pursue its economi agenda. For example, the CEPB may wish to issue several shor analyses of government economic plans or projections, or in 198 it might wish to publish an analysis of the economic platforms o the major political parties. In addition, leeway should be provided for a focus on exclusively regional issues.

Insert D

The types of training involved might include short courses ir organization and management, university courses in accounting, public relations, or business finance, exchange programs wit more advanced private sector chambers in neighboring countries (e.g., Venezuela, Colombia, Ecuador), or participation in external seminars on business management issues.

Insert E

As previously noted, Bolivia's private sector associations are at a low level of institutional development, providing limited member services and incorporating only a small percentage of potential members as active participants. For the private sector

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to grow and develop, a campaign needs to be undertaken to promo the creation and strengthening of business associations. T membership promotion efforts should support: 1) the institution development and activities of CEPB and the regional chamber and 2) the creation and promotion of new chambers. The kinds activities envisioned in this project are as follows: efforts strengthen the institutional and service capacities financially weak associations (membership drives, informatio training, needed commodities); activities designed to organi business chambers in un- or under-represented economic secto (organizational support, start-up costs, training); and hi profile activities designed to benefit the entire private sect (e.g., public education campaigns). The purpose of tl membership promotion effort is to strengthen the priva enterprise system in Bolivia, and enhance the capacity of priva sector associations to speak on behalf of the legitima interests of their members.

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private sector ideas on how roadblocks to increased private investment and job creation can be removed. The regional chambers might also organize such meeting with their departmental delegations. Insert A

4) Economic Seminar Series. CEPB and the regional chambers should organize a few seminars based upon the results of in-depth economic policy studies. Participants from a cross-section of Bolivian society (Armed Forces, the government, academia, labor, the church, the communications media) would be invited to discuss and debate economic policy recommendations with business leaders. These dialogues would serve to highlight important policy issues, build private sector consensus, and promote informed dialogue. Insert B

b. Private Sector Key Issue Analysis Capacity

A clear need exists for a private sector counterpart to UDAPE, which provides the GOB with in-depth analyses of key issues, often with the help of outside agencies such as the World Bank and USAID itself. More often than not, the private sector does not have access to these studies, which puts it at a disadvantage in any discussion with the GOB. More importantly, the institutional private sector has neither the capacity to analyze government policy positions nor the mechanisms to initiate its own policy studies and recommendations.

The technical assistance would support efforts to create issue analysis capacity within CEPB. Based on the priorities identified and debated through the seminar/workshop formats, this activity, with the support of other member associations, will have the capacity to develop basic analyses and policy alternatives for discussion as well as clearly defined position papers, for use in

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negotiations with the GOB or in an effort to gain public support for a specific policy.

While some of the economic studies could be done on a contract basis, assisted by short-term technical assistance, it will be necessary to establish/strengthen an economic policy unit in CFPB. A senior, well respected economist will need to be recruited to conduct economic studies, direct the work of others, and prepare and argue policy recommendations before the government. He should be assisted by a masters-level economist with excellent research, data gathering, and data management skills. As well, consideration should be given to supporting economic policy units in the Cochabamba and Santa Cruz federations, linked to the one in CFPB.

Insert C

In summary, the Project will initiate a process of policy reform, assisting the private sector in defining its own economic agenda. The CFPB will become the center of a network, working with and through other federations, to shape a policy and regulatory climate conducive to investment, employment, and foreign exchange generation.

c. Communications and Lobbying Skills

The seminar and workshop program will enhance the private sector's capacity to communicate systematically with itself and with other sectors in order to facilitate development of consensus proposals to deal with national problems. As the private sector's positions become more coherent, its leaders will increasingly be able to speak with "one voice". The combination of coherence and the ability to articulate its views will increase the private sector's role in the GOB decision-making process. In addition, this component contemplates the inclusion of occasional seminars designed to increase the communications skills of private sector leaders, including relations with the media.

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Additionally, all of the private sector organizations interviewed expressed a need for access to reliable statistical information. They assign a high priority to the development of data banks and information gathering capacities--as a general service for their members and as a cornerstone of any effort to identify problems, set priorities, or to prepare studies. The National Chamber of Industries, for instance, is supporting the SIIP program (Sistema de Información Industrial Privado) which, in its first stage, entails carrying out a census of Bolivia's private firms, their products and capacity. Later on, the program will be expanded to encompass production data, capacity utilization, attitudes, production projections and investment plans.

Other requirements range from the simplest economic data, to timely advice of export opportunities, to detailed interpretative studies and analyses of the specific national or sectorial problems. Consequently, the organizations will be encouraged to create a clearing house for the collection and dissemination of information and studies, which would ensure the widest possible distribution while avoiding unnecessary duplication.

Compatibility between the systems and procedures of the various organizations involved, to ensure comparability and accessibility by all of them, is also of extreme importance. Various chambers already have IBM/DOS systems in place. It would be logical to ensure that others acquire equipment and software that is compatible with those already in place, facilitating interconnection via modem. USAID will be able to help these organizations develop the requisite compatibility and interchange capacity, while enhancing the opportunities for cooperation between the various entities. At the same time, the systems should be designed in such a way as to facilitate their orderly growth and expansion, as the capacity to develop and process basic information increases.

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systems concerning new technologies and techniques, as well as technical assistance in the key areas of identifying operating constraints to productive activity and to those which promote investment and increase employment.

As has already been noted, strengthening of private sector organizations is fundamental to developing the private sector's capacity to communicate with itself and with the other sectors of Bolivian society. These associations constitute the nucleus of an organizational structure uniquely suited to the analysis and dissemination of the private sector's positions and views on the key policy issues facing Bolivia today.

This process will also enhance the effort to increase communications within the private sector, creating linkages and cooperative efforts between the various associations on the one hand, and with the relevant programs on the other. Therefore, this component will focus on three subcomponents: strategic planning, organizational development and membership development.

a. Strategic Planning. Most private sector organizations already engage in planning activities to some degree. But, by and large, most such activity is oriented towards the short-term (e.g. the current year or the current board's term in office). The program's emphasis, therefore, will be on strengthening these organizations' capacity for more systematic and longer term planning efforts. Similarly, the program will help participating organizations in the effort to relate short-, medium- and long-term goals to their strategic action plans, financial plans, organizational development and membership development.

In addition to strengthening these organizations, the proposed effort will promote greater cooperation and interchange between the various organizations, facilitating more coordinated and unified private sector actions. Similarly, the program will

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In addition to information development and sharing, technical assistance will be provided to assist the private sector in communicating and promoting its policy positions. Support will be provide to:

- publish newsletters and special bulletins to be disseminated throughout the private sector network to build support for policy positions.

- undertake targetted publicity campaigns using the news media.

- plan coordinated lobbying efforts in support of key policy objectives.
- initiate a public education campaign about the positive role the private sector plays in Bolivia's development.

2. Private Sector Institutional Strengthening

The policy reform technical assistance described above will be complemented by the second component under the amendment. This component will include private sector organizational support to strengthen the capability of selected private sector associations to improve the quality and scope of their services to current and prospective members and to professionalize their operations. Final design of this component included a survey and diagnostic of the various private sector associations to select those which would benefit most from the proposed assistance, as well as ensuring that the specific programs would be tailored to each recipient's present level of sophistication and absorptive capacity.

Implementation of this program will include technical assistance and training to improve the organizational capacities in such areas as organizational development and administration, membership services, production and marketing systems, information

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facilitate links and cooperation between the private sector and the GOB and other sectors of Bolivian society in addition to the various USAID offices and programs.

b. Organizational Development. This subcomponent includes management consulting technical assistance to strengthen, clarify and relate the structures and procedures of the various organizations, as well as on-the-job training for association staff plus assistance in systems design and implementation. > Insert D

c. Membership Development. The key to strengthening any private sector organization lies in the development of effective two-way communications between the members, the staff and the directors, and the provision of valued services to ensure expansion and maintenance of a supportive and active membership base. The program will thus include help in evaluating, improving and expanding the services offered to members. > Insert E

The program will also emphasize the need for structured membership recruitment programs. In addition, it will provide assistance in the development of effective communications and public relations programs, on both the institutional level and on the individual level (i.e., directors and staff).

d. Activity Inputs. Technical assistance will be provided initially to the CEPB, three "national" and three "regional" private sector associations. USAID/Bolivia will contract a resident advisor plus short-term technical assistance, to help private sector association planning and organization development including programs for:

Strategic planning:

- assist in the development and definition of organizational goals, objectives and policies;

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- assist in the preparation of long-term action plans and annual work plans; and

- assist in the development of financial planning and budgeting capacity.

Organizational Development:

- assist in the definition of roles and relationships of board members, officers, committees, staff and general membership;

- help establish appropriate executive staff structure and operating procedures;

- assist with staff development and training; and

- assist in developing mangement, financial and information systems.

Membership Development:

- assist in developing service delivery menu and plans;

- assist in designing membership recruitment campaigns; and

- assist in developing communications programs and public relations capacity.

The "mix" of services provided to the different associations will vary in accordance with their specific strengths, weaknesses and priorities. And, in all cases, an effort will be that the respective organizations are able to pass on

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made to ensure their newly acquired knowledge to others within their area of influence (e.g. from the Cochabamba Federation to its various member organizations). This will probably entail some limited work with some local organizations, as a part of the learning process.

D. Conformance with Host Country and AID Priorities

The SFM Project Amendment is in full conformance with both Bolivian and AID priorities. There is general recognition within the Paz Estenssoro government that the Bolivian economy is not likely to grow to meet the needs of its increasing population without a vigorous private sector, and the private sector beliefs it must take a stronger stand to support the GOB's economic reactivation plan. The GOB sees the need for an strengthened, more united, and more technically capable private sector with which it can engage in meaningful dialogue on national economic issues.

The SFM Project Amendment fits well with USAID/Bolivia's prime program objective: to promote private sector-led economic recovery. Moreover, the Project Amendment is supportive of key aspects of the SFM Project to improve financial sector operations, especially the plicy dialogue, studies, and institutional development dimensions. Finally, this Project Amendment is supportive of other projects in the private sector portfolio (e.g., DITPAC, Export Promotion, Micro and Small Business Development), and will play an essential role in imporving the policy and regulatory environment esential to their success.

IV. Project Description

A. Goal and Purpose

The goal of this Project Amendment is to support Bolivia's economic recovery through increased private sector investment in productive activities. The purpose of the amendment is to increase

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5. Regional Chambers

   a. Cochabamba and Santa Cruz (Each)
      Economist - 3 years
      Research assistant/data specialist
      Secretary

   b. Occasional conferences/seminars

   c. Occasional publications

   d. Membership support/development activities

   e. Commodities

   f. Training

Consideration for Financial Plan

1. Long-Term Advisors

Economic Policy Analyst	24 pm
Institutional Development	24 pm

2. Short-Term Technical Assistance

Economist	6 pm
Organizational Process	6 pm
Communications and PR	6 pm
Conference Seminars	3 pm
Information Management	3 pm

3. CEPB Expenses

   a. Staff

      Economist - 3 years
      Assistant - 3 years
      Secretary - 3 years
      Communications - 3 years
      Secretary - 3 years

   b. Conferences and Meetings

      2 large, 3-day conferences
      3 annual assemblies
      3 economic seminars per year
      3 luncheon seminars

   c. Publications

      Newsletter - monthly
      Studies - 4 per year

   d. Communications

      Occasional media campaign
      Data base system

   e. Training

   f. Commodities

4. Other National Chambers
   (?)

- Increased self-confidence on the part of private sector associations in their ability to advocate policy reforms and counter arbitrary government actions.

3. <u>Stronger, more effective private sector associations, as measured by:</u>

- Development of strategic plans by member associations which cover five years and have targets for activities, membership, fund raising.

- Establishment of baseline economic data systems pertinent to business needs.

- Increases in membership.

- Enhanced communications skills on the part of private sector leaders, reflected in better relations with the news media.

- In-house capacity to analyze economic policy issues and formulate responses.

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that they are an integral part of the private sector.

Successful organization of one of CIPB's major conferences, and of some contracted research activities, around this theme.

Public-private sector policy dialogue on how to stimulate broad-based savings and investment, rather than on specific "deal making" for further privileges.

4. <u>Initiation of a constructive private-public policy dialogue focused on how to stimulate investment and economic growth:</u>

- Invitation of public sector officials and members of Congress to participate in CIPB's sponsored conferences and seminars.

- Establishment of regular linkages between CIPB's economic studies unit with government agencies (e.g., EDAPT) and Congress.

- Establishment of public-private sector task forces or commission to study key policy and investment related issues.

5. <u>A broadened, more militant membership base for private sector associations, as reflected by:</u>

- Strengthened provincial private sector associations supportive of CIPB goals and activities.

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and its role in the economy; and the establishment of linkages for policy dialogue with the government (both the Executive and the Congress).

- Increased financial support from members or other non-AID sources.

2. <u>Improved national understanding of the need for the private sector to stimulate economic growth, to be indicated by:</u>

- The establishment of specific mechanisms (consultative commissions, working groups, etc.) for public-private sector policy dialogue on how to stimulate private savings and investment and generate employment.

- The successful organization around this theme of one of the conferences, and seminars notd above as well as of the contracted research activities.

- Specific Congressional and GOB initiatives promoted by CNPB to eliminate/modify restrictions and regulations and improve the business climate.

- A more coherent and forceful private sector representation in the Central Bank and other policy formulating institutions.

3. <u>Greater understanding, within and outside the private sector, of the meaing and role of private enterpirse, characterized by:</u>

- Increased recognition among private enterprises, regardless of size, location or field of endeavor,

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Outputs and End of Project Status

This project would work to develop both the institutional capability in the private sector to formulate economic policies for stimulating investment and economic growth and the capability to advance through dialogue and public opinion private enterprise, market led growth initiatives. Specifically, the conditions that will exist at the end of the project include the following:

A. End of Project Status

1. A strengthened private sector umbrella organization, CFPB as indicated by:

   - Substantially increased membership (both the membership of each association as well as the number of significant private sector associations affiliated) with particular emphasis on provincial, agricultural and small enterprises as well as financial and other sectoral associations.

   - Professional economic research and analysis capability based on the hiring of a highly qualified economist and support staff, and the contracting of special studies over the life of the project.

   - National recognition of CFPB's leadership role in areas of broad interest to the private sector, developed through: the organization of seminars for the discussion of CFPB sponsored studies and one major conference every two years; the publication of a newsletter and the contracted studies; organization of a media campaign to improve public understanding of the private sector

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out within Bolivia. Finally, he/she will direct and supervise short-term technical assistance required to strengthen the private sector organizations and develop an effective communications/membership services capacity.

The institutional development speialist should have an advanced degree (MBA or Masters in management/organizational development) and have extensive experience in developing private sector associations in the United States and/or Latin America. He/she should be familiar with economic policy issues affecting business, have excellent communications skills, be willing and able to travel extensively in Bolivia, and be fluent in Spanish.

Short-Term Technical Assistance. In general, the short-term technical assistance required to achieve the objectives of this Project Amendment will have to be obtained externally. While some of the consulting services required might be obtained locally (e.g., some economic studies, legal and administrative analyses), and budgetary provisions have provided for this, most of the necessary skills will have to be "imported." The project contemplates ____ person months (pms) of short-term external assistance, divided as follows:

Economist (monetary and credit policy, macro economic, labor, productivity improvement, etc.)	_____pms
Organization/Process	_____pms
Communications/Public Relations	_____pms
Conference/Meetings	_____pms
Information Systems/Data Management	_____pms

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private sector participation in, and influence upon, the economic policymaking process and to improve the institutional effectiveness of private sector associations.

B. Project Components

The SEM Project Amendment will have two components: 1) Improvement of the private sector's ability to analyze economic policy issues and communicate effectively its policy recommendatins; 2) improvement of the institutional effectiveness of private sector associations, especially in terms of broadening their bases and expanding services to members. It is important to note that these two components are closely intertwined: increasing the influence of the private sector on economic policy decisions depends not only on strengthening its analytic and communications capacities, but also on expanding its memberships base. Equally, expanding private sector organization/ participation depends not only on providing more and better services, but also on being able to represent effectively member interests before government policymakers.

The activities to be carried out under these two components have been described above. To recapitulate, the major activities under each component can be summarized schematically as follows, bearing in mind the dynamic, synergistic relation among them:

Policy Reform/Dialogue	Institutional Strengthening
- Establish/Strengthen economic policy units in CEPB and selected others	- Strategic planning
- Establish communications/ lobbying unit in CEPB	- Organizational development/ budgeting/effectiveness
- Annual Assembly	- Membership menus/campaigns
- Bi-annual Conference	- Establishment of information systems and creation of data banks
- Economic Seminars	- Newsletters and bulletins
- Congressional lunches	- Training
- Studies and Publications	- Consensus/linkages among chambers.
- Lobbying/media campaigns	

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Economic Policy Analyst. He/she will be responsible for working with the CEPB and regional chambers in setting economic policy analysis units. He/she will assist in identifying policy issues, directing research on these issues, and in defining policy alternatives to deal effectively with them. The policy analyst will also assist in the design and execution of seminars, conferences, and workshops focussing on economic issues, and will help to develop appropriate lines of communication within the priate sector on economic issues and between the private sector and governmental authorities. He/she will also be responsible for directing and supervising the work of short-term technical consultants, as required.

The Economic Policy Analyst preferrably should combine an academic background (Ph.D. or equivalent in economics) with practical business and/or government experience. He/she should have good writing and verbal skills, be able to train Bolivian counterparts, be familiar with a wide-range of economic policy issues in the Latin American context, and be fluent in Spanish.

Institutional Development Specialist. He/she will have the following duties: help selected associations to design and execute strategic planning exercises; provide organization expertise; help to design and improve services to members; and assist in deeloping membership recruitment campaigns. This consultant would also help the respective associations develop information processing systems which are adequate for their present needs but expandible to incorporate additional functions as each chamber's information gathring and analytic capacity is developed. Equally important, the consultant will endeavour to ensure that these systems are compatible with each other, to facilitate communications between the chambers. He/she will assist in the creation of information clearing centers, designed to ensure all of the associations prompt access to all sutides and surveys carried

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This project will function through a combination of technical assistance and grant funds to be provided to crefully selected private sector associations. USAID grant funds will be provided: to support the creation of economic policy units in CEPB and the Chambers of Santa Cruz and Cochabamba; to fund the economic policy seminars and conferenes which will be organized; to finance an enhanced communications unit at CEPB; to pay for a series of publications (studies, newsletters, bulletins) on key economic issues; and to pay for required commodities. USAID technical assistance, in the form of two long-term advisors and ____ person months of short-term consulting, will be supplied to work directly with the private sector associations in the areas of planning, budgeting, management, membership affairs, communications, conference organization, and economic analysis. The attached flow chart depicts the technical assistance to be provided.

C. Summary of Project Inputs and Outputs

1. Inputs

First, USAID/Bolivia will sign grant agreements with three national chambers (CEPB, American Chamber of Commerce, Urban Development Chamber) and two regional chambers (Cochabamba and Santa Cruz) for purposes of (1) an active program of studies, conferences, publications, and analyses oriented toward economic policy reform, and (2) efforts to improve institutional effectiveness and expand membership services. An estimated $_____ will be required over a two-year period.

Second, USAID will provide long- and short-term technical assistance to support the work of the private sector associations. Given their low level of associational deelopment, and the constraints to creating a vigorous private sector voice for policy reform, external technical assistance is regarded as critical. Approximately $_____ is budgetted for these purposes. The tehnical assistance will consist of two long-term advisers.

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