

ISA 59893

**REVIEW OF THE P.L. 480 TITLE III
FOOD FOR DEVELOPMENT PROGRAM
(472039)**

BOLIVIA SUMMARY

**U.S. GENERAL ACCOUNTING OFFICE
LATIN AMERICA OFFICE
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ABBREVIATIONS

AID	Agency for International Development
CIAT	Center for the Investigation of Tropical Agriculture
DCCP	Department of Coordination and Project Control
GAO	General Accounting Office
GOB	Government of Bolivia
IMF	International Monetary Fund
P.L. 480	Public Law 480

CHAPTER 1

INTRODUCTION

Bolivia is among the poorest countries in Latin America; its per capita gross national product of \$600^{1/} is the lowest in South America. Most of its population is rural and is concentrated in 30 percent of the country's land area, regions characterized by rugged topography and long distances between agricultural areas and markets which make access to transportation, communication, energy and social services difficult. Many in Bolivia earn their living as subsistence farmers, working plots of several hectares with traditional farming implements and techniques, and deriving their income from potatoes, barley, corn, wheat, coca and small amounts of mixed livestock production. Living standards are low as a result of low technology, marketing inefficiencies, transportation and communication bottlenecks, and low educational and health levels. In 1980, only one percent of the rural population had access to piped water and 11 percent of the total population to sewage systems. Of the total population over 15 years old, 60 percent are illiterate.

Bolivia's historically unstable political situation (172 governments in 159 years of independence) has contributed to

^{1/} 1981 data as reported by the World Bank, November 1983

disrupted development plans and unsound economic policies. The public sector is described as large and inefficient, whose activities produce large, generally uncontrolled losses which constitute a substantial portion of Bolivia's continually increasing fiscal deficit. Since November 1979, the peso has devalued 2,000 percent--in April 1984 alone it went directly from 500 pesos to the dollar to 2,000 to the dollar. Subsidies for basic consumer goods, such as petroleum products and wheat, have been very high and have been a major element of the country's \$1 billion fiscal deficit, approximately 16.5 percent of its gross domestic product. Over-investment, over-borrowing and political inability to address Bolivia's serious economic problems have led to the sharp deterioration of the economy since 1979.

Worsening the economic situation has been the impact of the flood and drought disasters which occurred in 1983 and resulted in over \$600 million of production losses primarily in the agricultural sector, and heavy financial requirements for unexpected capital outlays for reconstruction of damaged roads, bridges and water systems, as well as for food imports. Resulting food and employment shortages provided additional economic pressures.

Despite its problems, Bolivia is considered as having an excellent long-term potential for recovery in comparison to many other developing countries facing similar serious economic crises. With the exception of wheat, and given normal conditions, reports indicate that Bolivia has been able to produce enough food

to meet domestic consumption and to export surpluses. In addition, proper management and conservation of its hydrocarbon and hydroelectric resources could avoid the need for costly energy imports and potentially increase foreign exchange earnings. Bolivia also has other numerous, largely undeveloped mineral and natural resources such as tin, lead and petroleum, which could also provide substantial new foreign exchange earnings if its investment climate improves.

Wheat production insufficient
to meet domestic demand

With the exception of wheat, Bolivia has normally been able to meet most of its food needs. However, over the years its agricultural performance has been plagued by limited soil productivity, low quality seeds, frequent floods and frost, and more recently, a severe drought. Latest available data indicates that Bolivia's 1983 agricultural production was at least 60 percent below normal, and identified disaster-related deficits in food exceeding 1,000,000 metric tons. These deficits related to the six major crops produced by low income and subsistence farmers--rice, grain corn, fresh corn, potatoes, wheat and barley. Wheat consumption, estimated at 361,000 metric tons per year, is more than five times estimated domestic commercial production of 71,000 metric tons. Normal supplies of these staples have been scarce, expensive and even unavailable in some of the remote areas of the country. As a result, Bolivia has had to rely on continuous food imports to make up for its production deficits, diverting scarce foreign exchange from other uses critical to the country's general economic recovery efforts.

The U.S. has been providing
food aid for over 40 years

In response to Bolivia's varying agricultural output and food needs, the United States has been providing food aid through P.L. 480 and predecessor programs administered by AID as shown in the following table.

<u>P.L. 480 Food Programs in Bolivia</u>		
<u>Title I</u>	<u>Title II</u>	<u>Title III</u>
\$60 million	\$148 million	\$92.5 million
1942-1978	1955-1983	1978-1984

In addition, AID is planning additional Title I concessional loan assistance for 1984, and \$75 million in Title III for 1985 - 1990.

Title II, Food for Peace and Title III, Food for Development programs have accounted for most of the U.S. assistance provided to Bolivia. In addition to their regular objectives, each has financed emergency programs for the purchase of rice and wheat in response to the national food shortages brought on by major flood and drought disasters.

Title II assistance to Bolivia has evolved from a simple food distribution program to one which is more developmental in nature. It includes the establishment of mothers' clubs, which besides receiving food now offer courses in literacy, homemaking skills and health preservation. Some of these clubs have become consumer cooperatives and centers of small-scale cottage industry. Food-for-work programs are also used as incentives to increase agricultural production, improve infrastructure and obtain new technologies. School lunch programs are used as an incentive to increase attendance in addition to improving

nutrition. Overall, the Title II program has provided Bolivia with more than 224,000 metric tons of food commodities valued at approximately \$148.3 million. Title II funds do not have to be repaid.

In 1978, Bolivia became the first country to sign a P.L. 480 Title III Food for Development Agreement with the U.S. Through this program, Bolivia was to receive \$75 million in wheat (since amended to \$92.5 million) over a five year period. Local currency generated from the sale of the wheat to private millers was to be used to fund mutually agreed upon development projects. A Title III Executive Secretariat was created within the GOB to administer the program in coordination with the AID Mission. This program is jointly administered in Washington by AID, the Departments of Agriculture and Treasury, and the Office of Management and Budget, who are referred to as the interagency committee. Chapter 2 discusses how the GOB and the Mission administer the program and the results that have been achieved.

Title III programs, although loans, provide for full loan forgiveness to the extent that the local currency equivalent of the dollar value of the commodities provided is used for agreed development purposes. As of April 1984, Bolivia had received wheat shipments valued at \$80.7 million under Title III, and received loan forgiveness for \$29 million through disbursements for development projects. Chapter 3 explains how local currency generations are accounted for and how loan forgiveness is determined.

Title III programs can also include policy reforms intended to improve the performance of a country's agricultural sector. The GOB committed itself to a number of such reforms established in the Agreement. In addition, the AID Mission has sought to obtain additional commitments before approving each wheat shipment. Progress made in achieving these reforms is the subject of Chapter 4.

Objectives, scope and methodology

Our review focused on the following aspects of the Title III program in Bolivia:

- the overall status of the program,
- progress made in implementing projects,
- management of the Special Account, and
- progress made in achieving policy reforms.

We held discussions with AID Mission and Embassy staff, and also met with staff of the GOB's Executive Secretariat, the Department of Coordination and Project Control within the Ministry of Finance, various project-implementing agencies, and employees of Rural Development Services, a consulting firm. We also reviewed the Mission's and the Executive Secretariat's Title III program documentation, including monthly and quarterly disbursement reports, quarterly currency use offset and narrative reports, annual evaluations, individual project files, cables between the Mission and AID/Washington, and AID guidance concerning Title III programs. In addition, we visited 17 local currency development projects in the departments of Tarija, Santa Cruz and Cochabamba. Our work was conducted in accordance with generally accepted auditing standards.

CHAPTER 2

BOLIVIA'S FOOD FOR DEVELOPMENT

PROGRAM--A PRIORITY DEVELOPMENT EFFORT

The Title III program in Bolivia, administered jointly by AID and the Executive Secretariat, is currently the largest development program ongoing in the country, with over 100 subprojects either being implemented or completed as a result of local currency generations. It has been recognized in independent evaluations as a highly effective development program, especially considering the tough economic and political conditions under which it has been carried out. Reasons cited for its effectiveness include the management capability of the GOB's Executive Secretariat staff, AID's oversight and financial control, and established project criteria. As a result, the Title III Food for Development program has helped increase the production and availability of food in Bolivia as well as improve the quality of life of the country's poor.

Title III--highly regarded
by both AID and the GOB

Mission officials told us they consider Title III to be the best project AID has in Bolivia; it is also the largest, accounting for at least 50 percent of AID assistance to Bolivia since 1980. Most of the credit is attributed to the Executive Secretariat, which the Mission considers to be highly capable in administering the program. The Mission Director said, however,

that AID's active involvement is also important to the program's effectiveness. For this reason, the Mission treats Title III as other AID projects--assigning it a project officer and subjecting subproject proposals to a Mission-wide approval process. In addition, the Mission controls all local currency disbursements, none of which are made without a project implementation letter signed by the Mission Director.

The program is also highly regarded by the staff of the Executive Secretariat, most of whom have been involved with the program since its inception and have provided its continuity. The director of the Secretariat is a former AID employee, has worked extensively within the GOB in various ministries, and originally headed the Department of Coordination and Project Control (DCCP) which is in charge of the accounting and financial control of the program's resources. The director told us that he established the accounting procedures both in the DCCP and in the Secretariat's office according to those he learned while at AID, as well as adopted AID's guidelines for reviewing project proposals and preparing written reports and evaluations. AID reports describe the Secretariat's staff as "experienced and competent Bolivian professionals" who subject all proposed projects to rigorous design reviews and also carry out field supervision of project implementation. Missions officials also pointed out that Secretariat staff were invited to assist Costa Rica and Haiti in the evaluation and organization of their P.L. 480 programs.

Furthermore, the GOB, which needs the wheat shipments to meet its annual wheat requirements, has been agreeable to effecting certain policy reforms, such as announcing major price increases for agricultural commodities, and planning to eliminate the subsidized consumer prices for most agricultural products which have acted as a constraint and disincentive to local producers. Title III wheat imports have also been important for the GOB which has been able to increase imports of essential products and materials with the foreign exchange savings made possible by the Title III program.

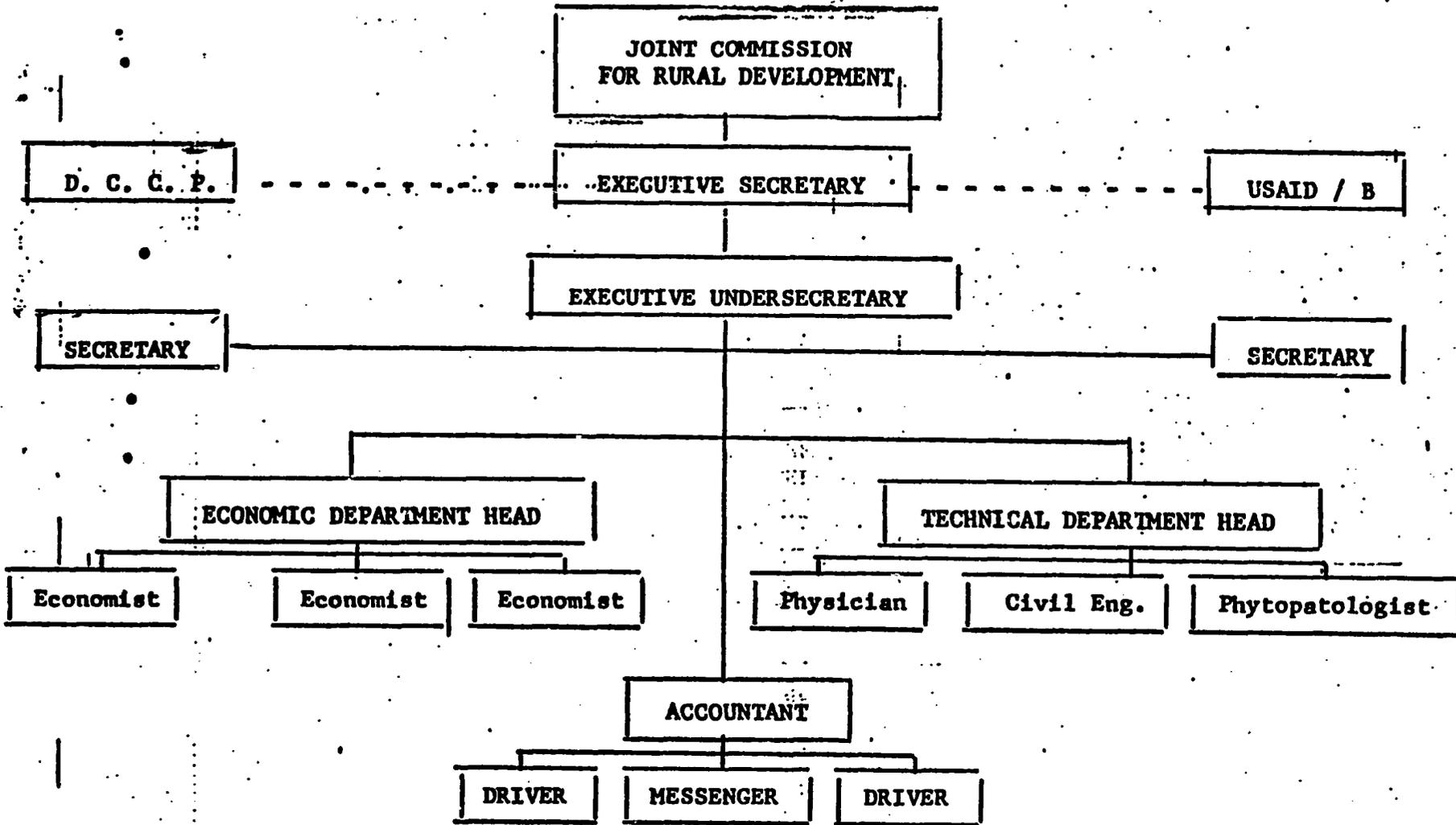
Program administration coordinated
by the GOB and AID

Several GOB groups are responsible for the administration of the Title III program in addition to AID. These are the Joint Commission for Rural Development, the Department of Coordination and Project Control, and the Executive Secretariat, organized as shown on the following chart.

Joint Commission for Rural Development

The Joint Commission for Rural Development, composed of one member each from the Ministries of Finance, Agriculture, Industry and Commerce, Health and Planning, has overall responsibility within the GOB for coordinating, reporting and evaluating the execution of all subprojects to be financed with funds generated by Title III. The Executive Secretariat was established to assist the Commission in its role. According to Mission officials, however, the Commission does not function as a group, and hasn't for some time, due to the country's frequently changing political

ORGANIZATION CHART - PL-480 TITLE III PROGRAM



situation and changing Ministry staffs. As a result, the Executive Secretariat has become the responsible GOB entity for the Title III program, and the one which the Mission is most dependent upon.

Department of Coordination and Project Control

The DCCP, which exists within the Ministry of Finance, is responsible for the central accounting of all international loans contracted by the GOB. As such, this group is responsible for the management of all Title III disbursements, including reviewing subproject disbursement receipts before authorizing more funds, and preparing and submitting local currency deposit and disbursement reports to the Executive Secretariat and to the Mission. In addition to its accounting and financial disbursement review, the DCCP's technical staff also conducts semiannual inspections of the subprojects. DCCP officials told us that they would like to conduct more frequent visits to be better able to determine which subprojects are having implementation problems, however, their role is limited according to the Agreement. A Mission official suggested the possibility of providing the DCCP more budgetary support under the proposed second Agreement, which would allow increased attention to subproject implementation and progress.

Executive Secretariat

Mission officials told us the Executive Secretariat by far plays the greatest role in managing the Title III program, responsible for

--providing technical assistance to those submitting project proposals, and reviewing these proposals prior to submitting them to the Mission for funding approval,

- conducting project supervision visits,
- preparing monthly, quarterly and annual reports for submission to the AID Mission,
- initially reviewing disbursement receipts before submitting these to the DCCP,
- ensuring that the program is audited annually by an independent entity in accordance with the Agreement, and
- serving as liaison between the Mission, the DCCP and the Joint Commission.

In addition, the Secretariat is also responsible for the financial management of funds generated by the Title II program, hence it is often referred to as the P.L. 480 office.

According to its director, both the Secretariat's economic and technical staff review proposals for local currency projects and also assist the agency which submitted the proposal in improving its preparation, e.g. does the proposal address implementation procedures and evaluation criteria? Mission officials told us they have yet to receive a project proposal which has not been thoroughly reviewed by the Secretariat's staff, and that only rarely will a proposal be returned to them after AID has reviewed it.

P.L. 480 staff told us they visit every subproject at least once each year and occasionally more often depending upon the status of implementation and whether problems have been identified. We observed during our visits to subprojects that P.L. 480 staff accompanying us were well recognized by implementing agency staff. The latter also told us that, for almost every project we visited, all have been visited by P.L. 480 staff at least once a year.

The Secretariat's reporting requirements are (1) a monthly financial situation report which lists all subprojects and what disbursements they've received, the amount accounted for by receipts and what remains to be accounted for, (2) a quarterly disbursement report and narrative progress report on project implementation, and (3) an annual program report which discusses progress achieved under the Title III program, and includes a comparison of results with projected targets, a specific accounting for funds generated, their uses, and the outstanding balances at the end of the fiscal year, and recommendations for modification and improvement in the program in Bolivia. Mission officials told us that they receive the monthly and quarterly reports three to five days after the end of the reporting period, and a draft of the annual report one or two months after the end of the fiscal year. Although Mission officials told us they review these reports, substantial changes are very seldom made and in most cases AID only needs to translate them into English before sending them to Washington. [The quarterly narrative is attached to the Mission-prepared quarterly Currency Use Offset reports, making these the only Title III quarterly reports which include a narrative progress report, according to an official of the Commodity Credit Corporation who receives and reviews them.] We reviewed the Mission's program files and found that all program reports required of the Secretariat were available. ?

The Secretariat's director and chief accountant told us that once a project is approved and initial disbursement made, no

subsequent disbursements can be made without at least 70 percent of the previous disbursement being accounted for. Once a disbursement is made, an implementing agency is given 90 days to show how the funds were spent for the project by providing receipts. The Secretariat's accounting staff reviews the receipts and also sends copies to the DCCP for review. Disbursement balances unaccounted for are reported in the Secretariat's monthly financial situation reports, and implementing agencies are notified if receipts are overdue. Mission officials told us they agreed with the disbursement criteria established by the Secretariat, and trusted that it was being enforced even though they don't review receipts themselves. We observed that receipts were being kept by the Secretariat for every subproject and were able to verify that these matched the amounts being recorded on the monthly financial situation reports.

Since the Title III program began, it has been audited annually by an independent Bolivian firm in accordance with the Agreement. Each of these audits, according to Secretariat and Mission officials, rendered unqualified opinions on the management of the program. In addition, DCCP officials told us their management of Title III funds is audited either annually or biennially by the Contraloria, the GOB accounting organization.

AID Mission

Although the Secretariat has been given primary responsibility for the Title III program, it is the Mission which has final control over which projects are approved and how local currencies

are programmed. Once a project is proposed to and reviewed by the Executive Secretariat, it must be reviewed and approved by the Mission before it can be funded. Mission staff involved in the review and approval process include the program officer, the loan officer, the Controller and the Mission Director at a minimum. Other staff participate on an as-needed basis. For example, Title III education-related projects are also reviewed by the education office, the health office reviews all health-related projects, and staff engineers review anything of a technical nature, such as building and bridge construction.

During our project visits we heard complaints from implementing agencies that AID's approval process--one agency estimated it took 30 days--was too long. The Mission Director pointed out, however, that even if it takes 30 days, this is still half of the amount of time it normally takes to approve other AID projects. He said the process could be expedited if the Mission had more staff, but requests for such are continually turned down. Because Title III is treated as other AID projects, he did not favor relinquishing the Mission's approval authority to the Executive Secretariat, or to one person in the Mission in order to speed the approval process and disbursement of funds.

In addition to the Mission's involvement in project approval, other input is provided by the program officer who periodically visits subprojects and meets with implementing agencies, maintains frequent contact with P.L. 480 staff, reviews quarterly and annual reports, and does an annual reprogramming of funds based on subproject needs.

Approval of local currency subprojects
indicates adherence to development criteria

Before subprojects can be approved for funding they must meet criteria established both at the Executive Secretariat and Mission levels. In addition, Mission officials told us, all subprojects must fall within one of the 18 project financing lines included in the Agreement or its amendments. As of March 1984, approximately \$29 million had been disbursed for approximately 150 rural development, agricultural and health subprojects which have been or are being implemented throughout Bolivia by the Secretariat.

Executive Secretariat staff told us that, prior to any technical and design reviews, they review each subproject proposal for the following before any can be initially approved and sent to AID:

- does the proposed subproject fall within the development categories established in the Agreement?
- is it duplicative of existing subprojects?
- does a market exist for any products involved?
- can, and how will the implementing agency provide counterpart funding? According to Mission officials, Title III funds do not cover expenses such as salaries for implementing agency staff or other administrative expenses. Consequently, the Mission requires 20-25 percent of the total project cost in counterpart funding from the implementing agency. The Executive Secretariat is responsible for determining to what extent the implementing agency can provide required counterpart funds or services-in-kind.

Once approved by the Secretariat, the proposal is sent to the Mission where, according to the program officer, the following are determined.

--is the purpose of the subproject in addition to those of other AID development projects? According to AID's guidelines, Title III activities are to complement and be in addition to other AID-financed programs. Mission officials told us they conduct an informal check for additionality when Title III proposals are circulated among the staff for review, and particularly when they are reviewed by the loan office which keeps a record of all projects and their descriptions.

--will the subproject have a recurring need for Title III funds, such as for operation and maintenance? Mission officials said their attention is focused on projects that can become self-sufficient over time, consequently for the most part they will not approve projects anticipated to need recurring funds. Those that have been approved become the responsibility of the implementing agency to provide for operation and maintenance needs. When funding for recurring costs is not available, however, the Mission Director said he would consider using Title III funds for this purpose on a case-by-case basis.

Mission officials also told us that they review proposed costs for each subproject and evaluate and revise these according to their experience in programming other AID projects. In addition, costs are again reviewed in the Mission's annual reprogramming of Title III funds.

Types of subprojects which can be funded from the Title III local currency proceeds were originally established in the Agreement by both AID and the GOB. This list has been amended and currently consists of the following categories of approved uses: promotion of national wheat production; development of integral cooperatives; access roads and transportation infrastructure; the reorganization of the Ministry of Agriculture and Rural Affairs; pesticide control and plant quarantine; rural development projects; community conservation; small irrigation systems; small farmer credit programs; scholarships for rural schoolchildren;

rural development studies; communicable disease control; health projects; policy analysis unit; colonization programs; assistance to producers associations; disaster relief; and Title III program administration. Of the \$80.7 million of wheat shipped to Bolivia under the program, the equivalent of \$29 million had been disbursed as of March 1984 for development activities in these areas. At the time of our visit, there was potentially \$21 million available for disbursement. (Chapter 3 discusses how local currencies are disbursed, converted into dollars for loan forgiveness purposes and how devaluations have affected the balance of funds in the Special Account.) The appendix shows the amounts disbursed for each project category, results achieved, and indicates those we visited.

Improved agricultural development--one result of local currency uses

Development activities funded by Title III have resulted in, among other things, increased agricultural production due to improved seeds for basic crops and production financing and marketing, community conservation, and improved community services such as potable water systems, immunization programs, road and bridge construction, and increased educational opportunities for rural schoolchildren. Upon visiting projects we found that most were being well implemented despite problems common to most development efforts, such as contractor problems and procurement delays. We also observed that implementing agencies, like the Executive Secretariat, are committed to the success of the projects.

Increased agricultural production

The results of several projects can be used to show how crop yields have improved as a result of Title III. One example is a rural development subproject which financed the purchase of soybean, corn and rice seeds by the Center for the Investigation of Tropical Agriculture (CIAT) in the department of Santa Cruz. Seed was purchased from participating farmers and used by CIAT to process and resell as certified seed. A similar subproject was also financed using wheat seed. A CIAT official estimated that 1,100 participating farmers have received improved seed for planting as a result. In addition, CIAT was able to provide certified wheat seed to areas outside of Santa Cruz that otherwise would not have produced wheat due to the 1983 drought and crop failures.

Another type of subproject which has helped increase agricultural production is providing production credit to farmer cooperatives. Funds are channeled through savings and loan-type institutions and then loaned to cooperatives for the production of basic crops. One cooperative we visited is composed of 20 smaller member cooperatives and receives financing for the cultivation of rice and corn. Members provide 40 percent of their production costs in counterpart funds. This cooperative's marketing efforts have also been improved by Title III financing of a road and bridge subproject which provides better access to marketing areas.

Community conservation

Title III funds have been used to finance community conservation activities such as reforestation, dam construction, land shaping and terracing. They have also financed training in successful conservation techniques for farmers, para-technicians, and technicians involved in community conservation efforts. One reforestation project we visited has provided 36 families with seeds for 30,000 plants. The plants are started in nurseries and later transferred to a community-owned land area. As of our visit, all the plants that had survived the weather conditions, about 20,000, had been transferred from the nurseries, eventually to be sold as wood. Another project provided 450 families in three rural communities with seeds for pine, cypress and eucalyptus plants. Again, these are started in a nursery and transferred to community land. Eucalyptus trees are used to prevent land erosion on hillsides, which also helps prevent roads from being washed out during rainy seasons. It is also expected that in six years the farmers will be able to sell some of the wood from these trees to an area paper mill.

Improved community services

A number of Title III subprojects are providing Bolivia's rural population with better community services and educational opportunities. A potable water project, 50 percent financed with Title III funds, has benefitted approximately 12,000 people in Tarija for four years. A fruit tree plantation would not exist without a nearby small irrigation system, financed by Title III.

Immunization programs for the control of malaria, yellow fever and tuberculosis now exist in Bolivia's seven most populated areas, and insecticides are being provided for house-spraying.

Vaccinations have also increased, especially among children. The latest annual evaluation of the Title III program shows that the number of contagious disease cases in the first quarter of 1983 was less than half those detected for the same period in 1982.

A Title III financed bridge over the Chane River has improved conditions for about 3,500 area residents who over a year ago could not previously transport their rice crops to market when water levels rose during the rainy seasons. At these times the river was passable only by canoes which could not transport the rice. A Mission official told us that as a result of the bridge, the ability to transport improved rice seeds into the area has increased, resulting in increased yields and better prices for the farmers. In addition, veterinary supplies are now transportable and available, resulting in improved farm animal health and larger litters.

A scholarship fund for rural schoolchildren provides educational opportunities for the poor at levels higher than that available in their own communities. This subproject also finances physical improvements of those 14 schools participating in the program. In FY 1983, 540 boarding scholarships and 30 non-boarding scholarships were financed - 51 percent more than the number granted in FY 1982. A work-scholarship system, whereby the

student contributes to the cost of the education by working at the school, allows more to benefit from funds available for these scholarships.

Not all subprojects have been successful, however. Several, like an integrated poultry development project, a wheat collection center, and a road improvement project, have experienced problems with contractors who were paid in advance but either never started or completed their work. Others, especially construction projects, experience procurement delays when the country's materials supplies are low. Overall, however, the Mission, the Executive Secretariat, and those implementing agencies we met with were pleased with the progress and results of Title III development efforts, as indicated in discussions and periodic, written evaluations. Some subprojects have become self-sufficient, and others have provided ideas for expansion if development funds continue to be available.

Conclusion

The Title III program in Bolivia has resulted in over 100 development activities since it began in 1978, many of which have achieved their stated goals. We believe that results achieved would not have been possible without the dedicated involvement of the GOB Executive Secretariat staff, their coordination with the AID Mission, and the follow-through on procedures established over the control and use of local currency generations. Both the GOB and the Mission have demonstrated their commitment to using the

Title III program as a priority development tool focused on self-help efforts to improve the income, productivity and health of Bolivia's rural population.

Recommendation

We recommend that the Administrator, AID, consider using Bolivia as an example of how Title III can be used as an effective development tool, and encourage the organization and management features discussed here when Title III programs are proposed in countries eligible for this assistance.

CHAPTER 3

MANAGEMENT OF THE SPECIAL ACCOUNT

In accordance with the terms of the Title III Agreement, the GOB deposits local currency generated from the wheat sales in a Special Account, jointly managed by both the DCCP and the Executive Secretariat. These funds, however, do not represent the total value of the wheat shipped from the U.S. because the GOB sells it at less than its cost. The GOB is responsible for this difference and consequently, as of April 1984, owed the equivalent of \$18.7 million to the Special Account. Also according to the Agreement, the GOB is credited with loan forgiveness for the dollar equivalent of funds in the Account as these are disbursed for approved projects. However, due to the continuing devaluation of the Bolivian peso, funds are usually disbursed at exchange rates lower than what was in effect at the time they were deposited. The result is that not only is the purchasing power of funds in the Special Account decreasing, but eventually, local currency deposits will be insufficient to offset the entire Title III debt when disbursed, and the GOB may be responsible for the outstanding balance. This issue has been brought to AID's attention by the Mission.

Deposits into the Special Account

Wheat sale proceeds are deposited in the Special Account which is maintained in the Central Bank of Bolivia, and are converted at the official exchange rate in effect at the time. Funds in the Special Account also consist of

--interest earned on excess funds,

--GOB deposits to make up the difference between the value of the wheat and the price it is actually sold for, and

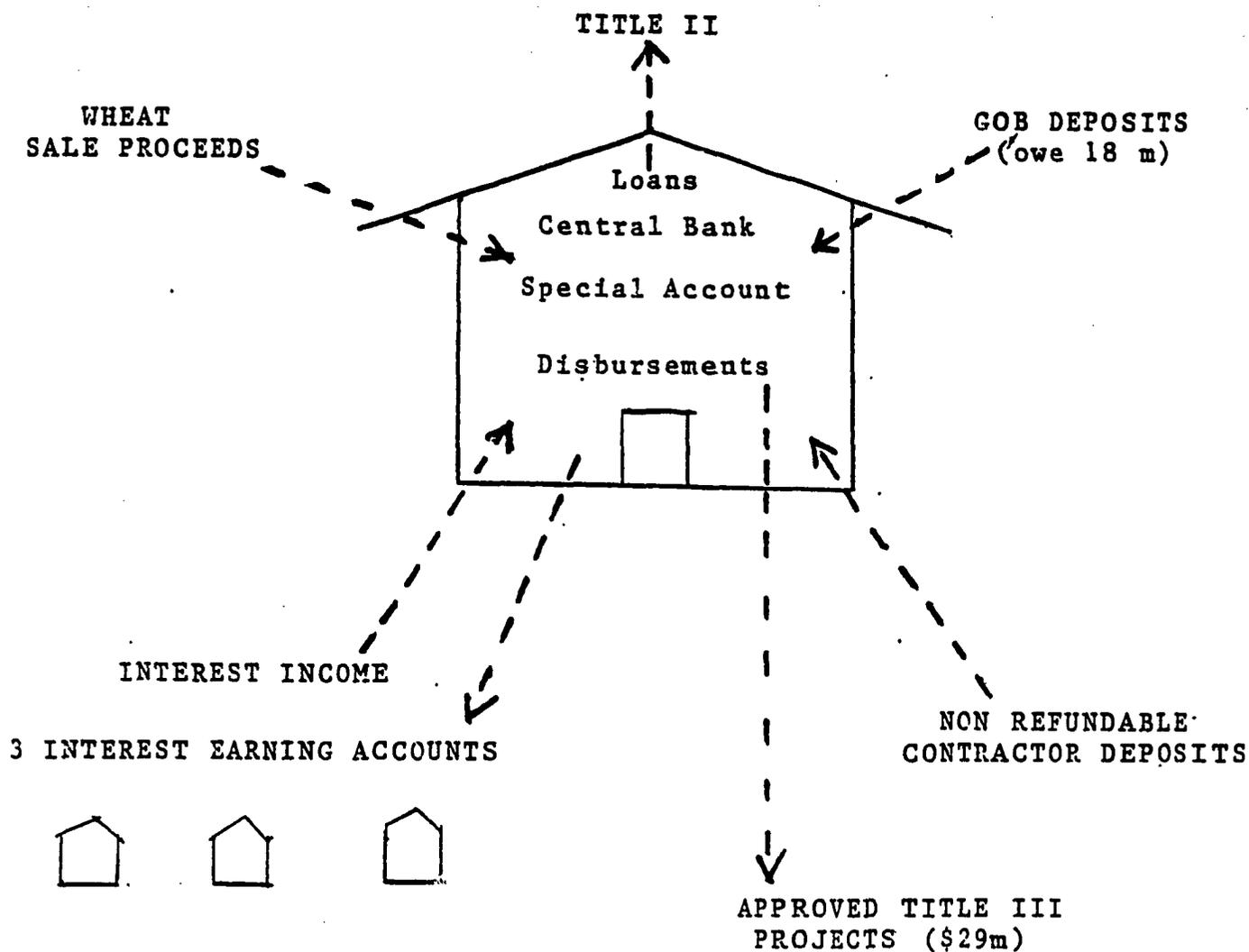
--nonrefundable deposits from contractor bids on projects.

As local currency is deposited into the Special Account it is transferred to either an operating account or interest-earning accounts. The operating accounts consists of project funding needs for the current quarter, as determined by the Mission and the Executive Secretariat. The excess is transferred into three private interest earning accounts which earn 47 percent, the interest rate established by the GOB for all savings accounts. Mission officials pointed out, however, that this is still much lower than the inflation rate. Interest income is transferred to the operating account for project use. At February 29, 1984 the equivalent of \$2.1 million was on deposit in the interest earning accounts. The balance in the Special Account which had not been disbursed was equivalent to about \$2.5 million in May 1984. In addition to disbursements for projects Special Account funds have also been loaned to Title II. In FY 83 a loan of \$1 million was made. This amount is to be repaid. Activity into and out of the account is shown in the following diagram.

The GOB owes \$18.7 million to the Special Account

The Ministry of Industry, Commerce and Tourism sells Title III wheat to the millers at reduced prices and then transfers the proceeds to the GOB Treasury which deposits it in the Special Account. However, because of the GOB's wheat pricing policy,

DIAGRAM OF
DEPOSITS & DISBURSEMENTS
TO THE SPECIAL ACCOUNT



DEPOSITS IN GREEN

DISBURSEMENTS IN BLUE

they are obligated to deposit the difference between the cost and the sales price to the Special Account. Although wheat sales have totaled \$80.7 million, deposits to the Special Account have amounted to the equivalent of \$62 million resulting in a difference of \$18.7 million owed to the Account. Part of this debt goes back to 1978. The Mission sent a letter to the Minister of Finance in May 1984 requesting that this amount be deposited in the Account.

Devaluations reduce program impact

Loan forgiveness is triggered when disbursements of local currencies from the Special Account are made for approved projects. Bolivia receives credit for its Title III loan by offsetting local currency disbursements against the debt. The conversion rate used is the official exchange rate in effect on the date of disbursement. However, due to devaluations that occurred after local currencies were deposited into the Special Account but before disbursements were made, Bolivia will not have enough local currency in the Special Account to offset the entire Title III debt. An example will help illustrate the point. A deposit of 1 million pesos in February 1984 (equivalent to U.S. \$2,000 at an exchange rate of 500 pesos to \$1) would result in an equal amount of offset (U.S. \$2000) if disbursement was made in March 1984 while the rate remained the same. However, if the disbursement was made in May 1984 when the exchange rate was 2000 pesos to \$1 then the offset would be equivalent to only U.S. \$500 or 25 percent of the deposit. After all disbursements are made,

Bolivia would still owe the U.S. over \$30 million dollars. The exact amount cannot be determined until all disbursements are made since the peso may be devalued again.

From the inception of the Title III program through March 31, 1984 Bolivia has disbursed and been granted loan forgiveness for \$29 million. Yet using a first in -first out method where all disbursements are converted at the same rate they were deposited, they've disbursed the equivalent of \$47 million. If Bolivia were to disburse the balance of the pesos in the Special Account today, which when deposited was equivalent to \$15.2 million, they would receive credit for only \$2.5 million.

The Bolivian peso has been devalued more than 5 times since 1978 -- from 20.40 to the U.S. dollar in November 1979 to 2000 to 1 in April 1984. The effect is that the Special Account balance has been reduced by the equivalent of about \$30 million.

AID/Bolivia attempted to amend the agreement in May 1983 so as to use the same exchange rate for disbursements as was used for deposits. However, the agreement was not changed. According to the Mission Director, AID/Washington has new wording for the agreement which was acceptable to the interagency committee, however, the Mission has not yet received the language. This wording would state that local currency disbursements are to be converted to U.S. dollars at the same rate at which they were deposited. The proposed second Title III agreement is expected to incorporate the revised language.

Inflation reduces purchasing power

Bolivia's accelerated inflation rate has reduced the purchasing power of the Special Account. Bolivia's Consumer Price Index Annual Variation Rate has increased rapidly as shown in the table below.

<u>Year</u>	<u>Annual Variation Rate %</u>
1978	10.4
1979	19.7
1980	47.2
1981	32.1
1982	132.5
1983 (thru June)	137.4

Exchange rate variations cause Special Account balances to decrease in dollar terms because funds in the Special Account are in local currency without a value guarantee clause. Less money is available because of devaluations and more is needed because of inflation.

The GOB is \$3 million in arrears on prior Title I debt

Prior to the present Title III agreement, Bolivia had a Title I agreement on which it is \$3 million in arrears. AID and USDA have been urging Bolivia to pay off the debt. The GOB agreed on a repayment schedule of four equal quarterly installments commencing March 31, 1984. However, Bolivia's Central Bank went on strike and the first payment was not made.

An option that Bolivia can use to pay off the Title I debt is the rollover provision. This provision allows a country to use local currency proceeds to offset current Title I debt other than that incurred through the Title III program. Bolivia has not used

rollover. In fact Mission officials were unaware that this provision existed until we told them about it. The Mission is interested in using rollover.

Management controls over the Account

The Special Account is jointly managed by the DCCP and the Executive Secretariat. Disbursement checks are signed by the Executive Secretariat director, the DCCP chief and the GOB Treasurer. Treasury sends a copy of the deposit slip to the DCCP which verifies the deposit against account statements from the Central Bank. The Mission contracts with a local firm for an annual audit of Title III. In addition, the GOB Controller audits the Special Account. We reviewed these two audit reports one of which was in Spanish. Both reports gave unqualified opinions.

Controls over disbursements

Disbursements are authorized when the Mission Director signs the implementation letter approving the projects. This letter is addressed to the Executive Secretariat who sends it and a request for funds to the DCCP. The DCCP issues a check and delivers it to the Executive Secretariat where the implementing agency picks it up.

Subsequent disbursements are made provided receipts for 70 to 75 percent of the previous disbursement are received by the Executive Secretariat. The Executive Secretariat keeps a copy of the receipt, sends a copy to the DCCP and returns the original to the implementing agency. Both the Executive Secretariat and the DCCP review the receipts. We were told by both Mission and

Secretariat officials that only on rare occasions has the implementing agency not provided sufficient receipts, resulting in project delays.

We reviewed the Executive Secretariat's records and traced invoices and receipts. Except for two differences in dates we did not note any discrepancies.

Access to records

AID has access to the financial records maintained by the Executive Secretariat, the DCCP, and the GOB Treasury. According to Mission officials, these agencies have been very cooperative and have provided AID with whatever they have asked for. During our visit we reviewed records maintained by the Executive Secretariat and DCCP and both were most helpful in providing assistance.

Conclusions

The Title III program impact is lessened because of Bolivia's economic situation. Inflation has reduced the purchasing power for projects. Devaluations will result in Bolivia owing dollars to the U.S. instead of being able to offset the loan with local currency disbursements.

The GOB agencies and AID exert adequate management controls over the Special Account.

CHAPTER 4

PROGRESS MADE IN ACHIEVING POLICY REFORM

Bolivia has made some progress in achieving policy reform. The AID Mission has used the wheat shipments as leverage to get Bolivia to change some policies. However, the policy reforms in the original agreement became unrealistic and were not achieved. Mission officials believe that policy commitments should be short term and flexible. Some Title III funds were used to help establish a policy analysis unit in the GOB to recommend policies to the Government. However, this unit has not yet met.

AID uses Title III tranches as leverage

AID/Bolivia has used the wheat shipments as leverage to obtain policy commitments from the GOB. Because wheat is so important to Bolivia's economy the GOB is agreeable to some policy reforms.

For example, the GOB signed four coca reduction agreements with the U.S. in 1983. According to an Embassy official, farmers will be paid to cut down coca plants and are encouraged to use the land to grow other crops. The farmer also receives assistance in marketing his product. Reducing coca production can improve the quality of life by getting Bolivians out of illegal activities and into more wholesome activities.

In addition, the GOB lowered its wheat subsidy from 60 percent to 10 percent. The GOB's subsidization policy was a disincentive to local wheat producers and encouraged contraband to neighboring countries. The policy also had a negative impact on the government's budget deficit and therefore, its ability to satisfy the

International Monetary Fund (IMF) conditions for a standby agreement. There have also been discussions on other subsidized products. In order to help Bolivia's economy, the Mission intends to sign a second Title III agreement only if Bolivia has an economic package acceptable to the IMF. The GOB has also raised prices on some products such as cooking oil and bread, thereby increasing the incentive for domestic production.

AID has not linked policy reform to loan forgiveness although Mission officials stated that partial loan forgiveness would be an incentive for Bolivia to adopt policy reforms.

Original reforms not achieved

Although the GOB has made some reforms as discussed above these were not the reforms established in the original agreement. The Title III agreement signed between the U.S. and Bolivia in May 1978 contained four major policy commitments by the GOB. These were to:

- double the public sector investment budget for the Ministry of Agriculture for 1978-82 compared to 1973-77.
- review, and reorganize the Ministry of Agriculture and its agencies in order to increase the efficiency and delivery of GOB support to the agricultural sector.
- maintain health sector expenditures, in real terms, at levels already established, apart from health sector expenditures under the Food for Development program.
- support domestic wheat production by purchasing without delay and at the official price all wheat of acceptable quality brought to a wheat collection center, and to increase the number of such centers.

The commitments were established by AID/Bolivia and according to Mission officials became unrealistic due to changing political and economic conditions, and, therefore, were not achieved. For

example, the commitment to double the Ministry of Agriculture's budget became undesirable. When the agreement was signed this commitment seemed like a sound idea. However, the economy worsened during the course of the agreement and doubling the budget no longer made sense. Also, since the signing of the original agreement Bolivia has had eight official presidents, a military coup, at least five peso devaluations, hyper inflation, daily strikes, and more than 16 ministry changes. The commitments were modified in April 1983 in order to adapt them to the political, social and economic conditions at that time.

According to Mission officials, changing political and economic conditions made it difficult to effect policy reforms. They said long term reforms are not practical in Bolivia because of such changes, and that short term policy reforms are more realistic. It is the Mission's impression that AID/Washington insists on long term (i.e. 5 year) reforms. AID/Bolivia argues that the long term in Bolivia is one year and that policies should be flexible. The Mission Director stated that AID will continue stressing short term reforms but will consider long term reforms which are tied into the adoption of an acceptable economic package. He also stated that they have not given up on the original reforms and they would work towards achieving them if conditions changed making them realistic.

Policy analysis unit established but has not met

A Policy Analysis Unit within the Ministry of Planning and Coordination was established in May 1983, partially financed

with Title III funds. AID's Policy Reform Project established this unit with the hope that it would conduct policy analysis studies and formulate policy recommendations necessary for GOB decision makers to address macro economic and sectoral development constraints. The unit has never met because of political reasons.

Conclusions and recommendations

Although Bolivia has not achieved the policy reforms in the original agreement, they have achieved other reforms such as reducing the price of wheat and signing coca reduction agreements. AID has used wheat shipments to encourage Bolivia to effect these reforms. The Mission may have greater leverage in getting Bolivia to achieve additional reforms if they could grant partial loan forgiveness. As discussed in Chapter 3, the GOB will not have enough local currency disbursements to offset the entire Title III debt. Granting loan forgiveness for this debt may provide additional incentive for Bolivia to reform policy.

APPENDIX

<u>Project description</u>	<u>Funds disbursed as of March 1984</u>	<u>Results achieved</u>	<u>Visited by GAO</u>
1. Promotion of national wheat production--establishment of a marketing program for locally produced wheat, through collection centers in rural areas, and development of a wheat seed and other grains program.	\$ 2,013,782	11 Wheat collection centers have been built, however, only two were actually operating as a result of poor crop yields due to weather conditions and the lack of an official price for local wheat. The seed program was expected to begin in 1984.	Wheat center in Cotoca, Santa Cruz
2. Development of integral cooperatives-- establishment of three integral cooperatives in three departments, and creation of a projects division with the National Federation of Savings and Loan Cooperatives (FENACRE) to provide technical assistance and prepare feasibility studies.	\$ 2,016,854	Credit lines have been established for each of the three cooperatives, which have been submitting projects to the Secretariat through FENACRE. FENACRE assists in preparing project proposals.	Cochabamba and Santa Cruz integral cooperatives; meetings with FENACRE officials
3. Access roads and transportation infrastructure--road improvement, and road and bridge construction.	\$ 1,292,594	Bridge construction was complete; one road's improvement and one's construction was yet to start.	Chane-Pirai road and Rio Chane bridge in Santa Cruz
4. Reorganization of the Ministry of Agriculture and Rural Affairs (MACA) through regionalization and decentralization, and the construction of agricultural service centers to back up and facilitate such a reorganization.	\$ 609,069	Criteria for reorganization purposes was yet to be designed; three of the five service centers were completed, the others were under construction.	Agricultural service center in Punata, Cochabamba
5. Pesticide control and plant quarantine-- control and monitoring of pest and disease carrying plants, use of pesticides, and institutional and operational strengthening of MACA's Vegetal Sanitation Unit.	\$ 912,809	Construction of a pesticide analysis laboratory and installation of equipment; a planned training course for laboratory staff; ongoing spider mite, fruit fly and plant lice campaigns.	

APPENDIX

<u>Project description</u>	<u>Funds disbursed as of March 1984</u>	<u>Results achieved</u>	<u>Visited by GAO</u>
6. Rural development projects--to facilitate the identification, study and preparation of projects that lead to the development of new programs and policies for the rural sector, such as the identification of new agricultural development projects and suitable areas for cereal production.	\$ 6,316,547	Includes about 35 development projects in either the operational or construction stage, such as road construction and maintenance, fruit production, corn cultivation, animal artificial insemination, seed improvement and multiplication, land and soil use mapping, and potable water systems for rural communities.	Fruit tree nursery and farm service center in Pocona, Cochabamba; basic seed production project in Santa Cruz; poultry development, potable water system, fruit tree center and land rehabilitation activities in Tarija
7. Community conservation--conservation and preservation of soils through forestation. Goals are to construct seven forestry nurseries in different regions of the country with an annual production of about 5,000,000 plants.	\$ 524,930	Tree nurseries had been established in four departments. One nursery had expanded to increase its production; two were facing construction delays due to rising materials and labor costs, however, despite delays were maintaining normal work pace.	Tree nurseries in Tarija
8. Small irrigation systems--construction of a number of small irrigation systems to enlarge the country's areas of irrigation.	\$ 1,135,076	In addition to the construction and improvement of 17 irrigation systems in rural areas, institutional strengthening was funded for the Bolivian Department of Irrigation, and a handbook on implementation of irrigation works was prepared and distributed to regional development corporations.	Two irrigation systems in Tarija
9. Small farmer credit program--disbursement of funds through public and private institutions to meet the credit needs of small farmers, particularly those suffering the effects of drought and floods.	\$ 6,725,702	As of October 1984, approximately 7,000 families, out of a goal of 11,000 had benefitted from receiving credits for various activities. There has also been a substantial increase in the number of those having life, agricultural and livestock insurance.	
10. Scholarships for rural schoolchildren--establishment of a scholarship fund which also provides for physical improvements of participating institutions.	\$ 802,575	In 1983, the number of participating institutions increased from 9 to 14; the program exceeded more than half of its scholarship goal; and infrastructure improvements continued.	

APPENDIX

<u>Project description</u>	<u>Funds disbursed as of March 1984</u>	<u>Results achieved</u>	<u>Visited by GAO</u>
11. Rural development studies--to finance studies required to design or modify ongoing subprojects and investigate other priority GOB programs.	\$ 319,415	Funds have been used for completed studies on the reorganization of MACA, coca alter natives in the Chapare area, and a training course for GOB officials.	
12. Communicable disease control--establishment of funds to support GOB disease control and immunization programs.	\$ 4,392,933	Regular funding has been used to maintain the level of services provided for the control and eradication of malaria, yellow fever, tuberculosis, and Chagas disease.	Met with health officials in Santa Cruz regarding disease control efforts
13. Health projects--to finance improved nutrition projects of the National Institute of Food and Nutrition; implement nutrition, health and health care supervision programs.	\$ 805,539	Nutrition education programs have been implemented in primary and intermediate schools, and experimental nutrition projects have been implemented through several regional development corporations.	
14. Policy analysis project--to facilitate the establishment and operation of a policy analysis unit, whose purpose will be to orient the GOB in the adoption of economic and sectorial policies.	\$ 111,020 (represents partial funding; other funds being provided under a complementary AID project).	As of April 1984, the unit was still being organized and had not yet met.	
15. Secretariat for the Development of the Bolivian Tropics--to finance installation and operating costs of a special unit to guide and promote orderly land use, settlement, production and marketing activities in certain areas.	\$ 1,000,000 ^{1/}	No activities to report; project established as of Amendment 11, December 9, 1983	

APPENDIX

<u>Project description</u>	<u>Funds disbursed as of March 1984</u>	<u>Results achieved</u>	<u>Visited by GAO</u>
16. Institutional support to producers' associations--to provide funds to strengthen associations and other private farmer groups which are involved with furthering the production and marketing related interest of their membership.	\$ 500,000 ^{1/}	No activities to report; project established as of Amendment 11, December 9, 1983.	
17. Disaster recovery activities--to provide counterpart funds for AID's Disaster Recovery Project and Title II food distribution programs.	\$ 322,000 ^{1/}	Activities which have been funded include rice and corn production and marketing, wheat and basic seed production, emergency agricultural plans, and bridge construction.	
18. Program administration--to fund administrative costs of the Executive Secretariat	\$ <u>994,389</u>		
Total disbursements	<u>\$28,973,234</u>		

^{1/} Represents funds authorized; disbursement data not available. These funds are not included in the disbursement total.