

EBS/01/80
Supplement 1

CONFIDENTIAL

July 3, 2001

To: Members of the Executive Board

From: The Secretary

Subject: **Bolivia—Poverty Reduction and Growth Facility—Three-Year Arrangement**

Attached for the records of Executive Directors is the text of the three-year arrangement for Bolivia under the Poverty Reduction and Growth Facility, as agreed at Executive Board Meeting 01/59 (6/8/01).

Att: (1)

Other Distribution:
Department Heads

Bolivia: Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Attached hereto * is a letter ("the Letter"), with an annexed Memorandum of Economic Policies and tables (the "Memorandum") and a Technical Memorandum of Understanding (TMU), dated May 25, 2001 from the Minister of Finance and the President of the Central Bank of Bolivia requesting from the International Monetary Fund as Trustee (the Trustee) of the Poverty Reduction and Growth Facility Trust (PRGF Trust) the third annual arrangement under the three-year arrangement for Bolivia under the Poverty Reduction and Growth Facility (PRGF) approved on September 18, 1998, and setting forth the objectives and policies of the program to be supported by the third annual arrangement.

To support these objectives and policies, the Trustee approves the third annual arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the PRGF Trust.

1. The amount of the third annual arrangement will be for the equivalent of SDR 56.097 million made available in three loans:

- (i) the first loan, in an amount equivalent to SDR 19.0 million, will be available on the first availability date after approval of this arrangement at the request of Bolivia;
- (ii) the second loan, in an amount equivalent to SDR 19.0 million, will be available on October 31, 2001 at the request of Bolivia and subject to paragraph 2 below; and
- (iii) the third loan, in an amount equivalent to SDR 18.097 million, will be made available on March 31, 2002, subject to paragraph 2 below.

2. Bolivia will not request disbursement of the second and third loans specified in paragraph 1(ii) and 1(iii) above:

(a) if the Managing Director of the Trustee finds that the data as of June 30, 2001, with respect to the second loan, and as of December 31, 2000, with respect to the third loan, indicate that:

- (i) the limits on the cumulative deficit of the combined public sector and the cumulative domestic financing of the combined public sector specified in Table 1 attached to the Memorandum; or
- (ii) the target for the minimum gain of the net international reserves of the Central Bank of Bolivia specified in Table 1 attached to the Memorandum; or
- (iii) the limit on the changes in net domestic assets of the Central Bank of Bolivia specified in Table 1 attached to the Memorandum; or

* See EBS/01/80, 5/25/01.

- (iv) the limits on the increase of public and publicly guaranteed external debt specified in Table 1 of the attached Memorandum, was not observed; or

(b) if Bolivia has not carried out its intentions with regard to the structural performance criteria relating to the approval by Congress of a tax procedures code that will inter alia: (i) shift the adjudication of disputes from judicial to administrative procedures, with the payment of most or all of the disputed amount made prior to judicial review of the case; (ii) establish tax fraud and similar violations as a crime, and (iii) provide adequate rules about the use of sworn tax declarations and application of the statute of limitations; and approval by Congress of financial sector legislation for strengthening bank resolution procedures and facilitating prompt corrective action for banks with problems as specified in paragraphs 12 and 15 of the Memorandum, respectively; or

(c) if Bolivia:

- (i) has imposed or intensified restrictions on payments and transfers for current international transactions; or
- (ii) has introduced or modified multiple currency practices; or
- (iii) has concluded bilateral payments agreements which are inconsistent with Article VIII; or
- (iv) has imposed or intensified import restrictions for balance of payments reasons; or
- (v) has incurred any new external payments arrears by the public sector; or

(d) with respect to the second loan, until the Trustee has determined that the first review of Bolivia's program referred to in paragraph 2 of the letter has been completed; or

(e) with respect to the third loan, until the Trustee has determined that the second review of Bolivia's program referred to in paragraph 2 of the letter has been completed.

If the Managing Director of the Trustee finds that any of the performance clauses that have been established in or under this paragraph 2 has not been met with respect to the second or third loan specified in paragraphs 1(ii) and 1(iii) above, such loan may be made available only after consultation has taken place between the Trustee and Bolivia, and understandings have been reached regarding the circumstances in which Bolivia may request that second or third loan.

3. In accordance with paragraph 2 of the attached letter, during the period of the third annual arrangement, Bolivia will consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing

Director of the Trustee requests such a consultation. Moreover, after the period of the third annual arrangement and while Bolivia has outstanding financial obligations to the Trustee arising from loans under that arrangement, Bolivia will consult with the Trustee from time to time, at the initiative of the Government or whenever the Managing Director of the Trustee requests consultation on Bolivia's economic and financial policies. These consultations may include correspondence and visits of officials of the Fund to Bolivia or of representatives of Bolivia to the Fund.