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To: Members of the Executive Board

From: The Acting Secretary

Subject: Bolivia - Policy Framework Paper, 1989-92

Attached for consideration by the Executive Directors is the policy framework paper under the enhanced structural adjustment facility for Bolivia, which will be brought to the agenda for discussion on a date to be announced.

Mr. Duran-Downing (ext. 8621) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

BOLIVIA

Enhanced Structural Adjustment Facility

Economic Policy Framework Paper for 1989-92

Prepared by the Bolivian authorities in collaboration with the staffs of the Fund and the World Bank

October 12, 1989

I. Introduction

1. This paper, the third of its kind for Bolivia, updates the policy framework paper (PFP) that was issued in June 1988, reviews recent developments, and extends the policy framework by another year, to 1992. The Government's medium-term strategy broadens the reforms that have already been implemented to stimulate export-led growth, while at the same time addressing social issues.

2. Following the economic crisis of the early 1980s that saw several years of declining output and culminated in hyperinflation, the Government in late 1985 embarked on a fundamental reorientation of economic policy designed to halt hyperinflation and address long-standing structural weaknesses. Key elements of the new outward-oriented economic strategy have been (i) the freeing of virtually all prices in the product, labor, foreign exchange and financial markets; (ii) the restoration of fiscal discipline, supported by an overhaul of the tax system, a reorganization of public sector management and a restructuring of public enterprises; (iii) measures to strengthen the seriously weakened financial system; and (iv) re-establishing relations with Bolivia's commercial and official creditors. The reform program has received substantial financial support from multilateral and bilateral donors, which was all the more necessary in view of the serious deterioration in its terms of trade that Bolivia has faced since 1985.

3. The program followed since August 1985 met with considerable success despite adverse external developments. Economic activity has begun to recover from the severe contraction of the first half of the 1980s; real GDP has increased for three consecutive years, hyperinflation was brought under control and the international reserves position was strengthened. In 1988 the Government embarked on a medium-term program for the period 1988-91 to consolidate the gains achieved since 1985; this program, which is supported with Fund resources under the enhanced structural adjustment facility (ESAF), aimed at achieving rates of output growth of 3.5 percent a year on average, reducing inflation to international levels, strengthening the balance of payments and securing a gain in net international reserves over the program period.

4. During 1988 the Government achieved most of its economic objectives. Real GDP expanded by 2.8 percent, which was slightly above program projections. In the wake of sharp adjustments in public sector prices and rapid exchange rate depreciation in mid-year, inflation accelerated to 21 1/2 percent during 1988 compared with 12 1/2 percent projected in the program. However, the three-month moving average of consumer prices had slowed to an annual rate of 12 percent by December 1988. Despite a nominal depreciation of close to 12 percent, the boliviano appreciated by about 3 percent in real effective terms during 1988, in contrast with the program's objective of a modest depreciation in real terms. The public sector deficit in 1988 was equivalent to about 6.7 percent of GDP as programmed and down from 7.4 percent of GDP a year earlier. Despite somewhat lower than projected exports, the current account deficit in the balance of payments narrowed to 9.8 percent of GDP in 1988 (before official transfers) compared with 12.8 percent targeted in the program. The capital account was weaker than expected, mainly as a result of a reduction in arrears to foreign oil companies and an increase in the domestic bank's external assets. Net international reserves decreased by US$46 million during 1988 compared with US$71 million envisaged in the program, after adjustment for nonpayment of Argentina's arrears.

5. Further progress was made in 1988 in key structural reforms, though in some areas there were unexpected delays. The Government continued to implement the tax reform and to improve tax administration; special directorates were established in La Paz, Cochabamba and Santa Cruz for the control of large taxpayers with the support of computerized systems. The selective tax on sales of automobiles and household appliances came into effect in late 1988, somewhat behind schedule, and implementation of the rural land tax was postponed until June 1989. The customs administration is in need of major restructuring, but the adoption of an action plan to reform the service administration has been postponed until late 1989, and in the meantime, special measures were implemented to reduce evasion of custom duties. Further progress was made in restructuring the state enterprises, particularly in the state petroleum company (YPFB). The centralization of the administration of pipeline and drilling operations and a reduction of 500 workers were implemented ahead of schedule in 1988, and the creation of profit centers was completed in early 1989.

6. With the financial and technical assistance of the World Bank and UNDP through the first stages of the Integrated System of Financial Administration and Government Control (SAFCO) the Ministry of Finance was restructured, establishing a computerized system for budget execution, and improving budgeting by objectives for the 1990 budget. The office of the comptroller is also being restructured with new systems of internal control, auditing and accounting.

7. The Government made substantial progress in speeding implementation of investment projects and removing bottlenecks to disbursements by external donors. These improvements were achieved through closer monitoring of the investment program and through contracting with external agencies to speed procurement. As a result, public sector investment rose from US$268 million in 1987 to over US$352 million in 1988. During 1988 major sectoral strategies and policies were identified in the public sector investment plan with external technical assistance. The World Bank reviewed the three-year public investment program in 1988 and found it broadly appropriate.

8. In addition to the establishment of stricter capital and loan loss provisions, and strengthening the supervisory operations of the newly created Superintendency of Banks, the Central Bank took a further step to develop financial markets by initiating weekly auctions of certificates of deposit (CDs) in February 1989. In order to limit the operating losses of the Central Bank, a series of measures were introduced in March 1989. Restructuring of the state-owned Mining Bank continued through a sale of part of its equity to the private sector, and proposals for the reform of the State Bank and the Agricultural Bank have been drawn up. Transport facilities along the main export corridors were improved, and a private grain terminal was opened on the Paraguay River which will facilitate grain exports.

9. Bolivia reached agreement with official creditors participating in the Paris Club in November 1988 on the rescheduling of arrears outstanding as of end-September 1988 and maturities falling due through December 1989 for a total debt relief of US$234 million for 1988 and US$136 million for 1989. All bilateral agreements with participating creditors have been concluded. Through the buyback arrangement and debt conversions with donations, Bolivia retired US$407 million of its debt with commercial banks by mid-September 1989 and has received offers to retire an additional US$42.5 million. Discussions with commercial banks for the elimination of the remaining US$229 million are continuing and the Government expects to have completed the buyback or exchange of commercial bank debt by March 1990. Measures to improve the recording and monitoring of external debt were implemented and debt/equity swaps have been allowed since January 1989.

10. So far in 1989, economic activity in the mining and energy sectors has been buoyant but there has been a slowdown in manufacturing and a sharp decline in agriculture which was adversely affected by drought. Real GDP is projected to rise by about 2.8 percent, somewhat below the program target of 3.5 percent in 1989. The 12-month rate of inflation declined to 9.2 percent in August 1989, although there was a sharp increase in prices in August (3.1 percent) on account of adjustments in prices of petroleum and bread and an acceleration of the rate of depreciation of the boliviano.

11. Financial developments in the period January-early August were worse than programmed in a number of areas. In the first place, Argentina did not pay previous arrears on gas imports and incurred new arrears after April, only partially compensated by Bolivia's nonpayment of interest obligations falling due to Argentina in that period. Secondly, the reduction of Bolivia's arrears to oil companies continued to be faster than planned. Thirdly, large private capital outflows and a sharp run on bank deposits took place during the period May-early August that were related to political uncertainty following the May presidential elections. Fiscal policies were somewhat weaker than programmed owing mainly to a delay in adjusting public sector prices and lower than anticipated tax collections, which resulted in a fiscal deficit in the first half of the year equivalent to 6 percent of GDP (annual rate) as against 4.3 percent in the program. In addition, monetary policy was eased somewhat to assist the banking system to face the run on deposits. As a result, despite a significant improvement in the current account of the balance of payments, central bank net international reserves declined by about US$300 million in the period January 1-August 10. Despite a depreciation of the boliviano of 8 1/2 percent vis-a-vis the U.S. dollar in the first seven months of 1989 and low domestic inflation in that period, the real effective exchange rate is estimated to have depreciated by only 1 to 2 percent with the appreciation of the U.S. dollar against other major currencies.

12. With the new administration coming to office on August 6, 1989 and the start of the implementation of the economic program described below, the situation improved rapidly. The new government raised petroleum prices and prices of other state enterprises, implemented additional fiscal measures, depreciated the boliviano, tightened credit policies and came to an agreement with Argentina (see paragraph 13). By mid-September bank deposits had almost fully recovered the decline since May, and net international reserves had recovered by almost US$80 million. From end-July to mid-September the boliviano depreciated by a further 5 1/2 percent, or by about 1 percent in real effective terms.

13. On August 30, 1989 Argentina and Bolivia agreed to write off Bolivia's obligations to Argentina estimated at about US$803 million against Argentina's arrears to Bolivia estimated at about US$314 million. With this agreement, Bolivia's external debt situation has improved significantly as interest payments will be reduced by about US$55 million (the equivalent of 1.2 percent of the 1989 GDP) a year through 2002. Moreover, Argentina undertook to resume payments for gas imports starting August. In November 1989 the two Governments expect to conclude negotiations on the modalities of future payments of gas imports.

II. Social Impact of the Program

14. The prolonged recession of the early 1980s culminating in the hyperinflation of 1984-85 had severe adverse consequences on the welfare of the population, particularly lower income groups. In addition to declining per capita incomes and rising unemployment, the provision of basic services to low income groups deteriorated sharply as the Government's finances worsened. In 1985 the authorities were successful in halting hyperinflation; at the same time there was a severe deterioration in the terms of trade. The stabilization strategy included the establishment of the Emergency Social Fund (ESF) in order to alleviate pressures on low-income groups. The ESF, with assistance from multilateral and bilateral donors, financed labor-intensive infrastructure and rehabilitation projects, supported small-scale enterprises and provided emergency social assistance.

III. The Medium-Term Program

15. The Government's medium-term strategy aims to raise economic growth to the range of 4-5 percent a year, reduce inflation to about world levels, improve social conditions and make further progress toward viability in the balance of payments (Table 1). To foster these objectives the Government remains committed to pursuing market-oriented, outward-looking economic policies. In light of the experience to date under the program, the Government intends to strengthen the public sector savings and investment, to improve the mechanisms of monetary control by the Central Bank, to increase the incentives for export through an improvement in competitiveness and to improve incentives for foreign and domestic investment. At the same time, within the constraints of available resources, the Government intends to focus greater attention on social issues through improved delivery of health and education services and greater emphasis in the public investment program on projects in the social sectors. A summary of the government structural adjustment program and the timetable for its implementation is attached.

a. Public sector resource mobilization and expenditure policies

16. The Government continues to attach special importance to maintaining fiscal discipline and intends to limit the nonfinancial public sector deficit to amounts that could be financed entirely with external resources, thereby allowing for reductions in public indebtedness to the domestic banking system. The program calls for a reduction of the overall deficit of the nonfinancial public sector to 5.0 percent of GDP in 1989 and 3.3 percent of GDP in 1990, which will be kept at about the same level in the period 1991-92. The fiscal plan for 1989-92 envisages raising the level of savings from 1.1 percent of GDP in 1989 to 4.0 percent of GDP in 1990 and to 4.2 percent of GDP in 1992. The savings and investment performance will be bolstered through improved taxation, restraint on current spending and improved efficiency in the operation of state enterprises.

17. The Government will continue to strengthen tax collections through the full implementation of the tax reform initiated in 1986 and major improvements in tax and customs administration. Priority is being given to the full implementation of the systems and procedures that have been already designed for the tax administration; a manual for tax collectors will be finalized shortly and current vacancies for auditors and managers filled. Attention can then be focused on measures to deal with delinquent taxpayers and those who fail to file, backed by a reform of the Tax Code to create an adequate structure of penalties. Also, in 1990, the Government will implement a system of cross-checking purchases of the public sector and large taxpayers with the reported sales of their suppliers. In addition, the tax on soft drinks and the tax on rural land are now being collected. The Government will present to Congress legislation (i) to increase the rates of the value-added tax, the simplified regime, and the complementary regime by 2 percentage points; and (ii) to change the base of the tax on presumptive income of enterprises from net worth to gross assets so that the present incentive to borrow is removed and rates will be modified to increase the yield of this tax from 1991 onward. The Government will make efforts to improve cadastral records of properties in the main municipalities and improve administration of the tax on real state and automobiles. The Government also plans to resume the quarterly reductions in the import tariffs of 1 percentage point on imports other than capital goods as from March 1990 with the objective of reaching a uniform tariff of 10 percent for all imports by September 1991. Concurrent improvements in customs administration should prevent a decline in collections. New mining and hydrocarbons codes will be submitted for congressional approval before the end of 1989 including new tax regimes for the mining sector.

18. The Government will keep the pricing policy of the state enterprises under continuous review. The prices of petroleum products were increased by 18.2 percent in August 1989 and will be adjusted subsequently from time to time in accordance with the fiscal targets. The prices of other public goods and services have been raised at various dates in the period July-September and also will be further adjusted from time to time as necessary in order to maintain them in real terms.

19. The Government will continue to exercise utmost caution as regards current expenditure and is determined to limit the growth of current outlays to less than the increase in revenue so as to achieve the objective of raising savings. The wage bill will be kept constant in real terms and an effort will be made to rationalize employment and wages in the public sector. No new direct or indirect subsidies will be introduced.

20. The Government attaches special importance to raising the level and improving the efficiency of public sector investment. Given the improved implementation capacity and the enhanced availability of external financing, the authorities plan to raise public investment to 7.4 percent of GDP in 1989 (compared with 6.2 percent of GDP in the original ESAF program) to increase it further to 8.8 percent of GDP in

1990 and to maintain investment at about that level through 1992. In keeping with the general orientation of economic policy, public sector investment while still directed largely to infrastructure in support of productive activities by the private sector, will also place greater emphasis on the social sectors. Priorities for public sector investment over the program period also include improvements in transportation facilities to lower the costs of domestic and international trade, increases in electrical power generation, and various projects to improve the efficiency of agricultural production. In addition, further investment will be made in mining and hydrocarbons activities managed by the public sector, including the project to sell electricity to Brazil. A review of the investment plan will be completed by October 1989 with annual reviews thereafter. The implementation of the program will be closely monitored and action taken as appropriate to reduce bottlenecks further and accelerate implementation.

21. The Government also aims at increasing efficiency in the operations of the nonfinancial public sector through improvements in management, strengthening of budgetary procedures and tighter control. The Government has set up a special unit with foreign technical assistance to implement an integrated system of Financial Administration and Government Control (SAFCO) and is seeking final congressional approval of the SAFCO Law in late 1989.

22. The Government will continue the process of restructuring the state enterprises with a view to streamlining their operations and increasing their operating surplus. Major improvements have been made in the mining corporation (COMIBOL) and the state petroleum company (YPFB). Attention will now be given to the operations of other state enterprises, including the state electricity company (ENDE) and the state railroad company (ENFE). In this regard, consultants have completed a study of the operations of ENFE, and a new structure of freight rates was implemented in September 1989. Further work will include implementation of new passenger fares and technical assistance to reform ENFE's operations along the lines recommended in the study.

23. The Government will seek congressional approval to undertake privatization of state enterprises and by mid-1990 the Government will evaluate each state enterprise, public service and utility to establish a timetable for partial or full sale where appropriate. Following the approval by Congress of new codes for mining and hydrocarbons in 1989, joint ventures and operating contracts with private firms will be possible in those areas in which there had been legal restrictions to private investment. The public enterprises also will now begin to promote joint ventures with private investors. The distribution of petroleum products at the retail level has been opened to private concerns, including foreign companies. The Government will evaluate the advisability of moving the social security system from a pay-as-you-go basis to a capitalization system with private sector participation. A study of the costs and benefits of such a step will be undertaken by mid-1990. Bolivia is already cooperating with the Overseas Private

Insurance Corporation (OPIC) and expects to join the Multilateral Investment Guarantee Agency of the World Bank shortly upon congressional approval.

b. Monetary and credit policy

24. The Government will follow monetary and credit policies consistent with the growth, inflation and external objectives of the program, and interest rates will continue to be determined by market forces to induce efficient allocation of resources, promote private savings and improve efficiency in financial intermediation. With growing private sector confidence, the strengthening of the balance of payments and full implementation of financial reforms, real interest rates and spreads between credit and deposit rates are expected to decline during the program period. Reflecting these factors, financial system liabilities to the private sector are projected to grow faster than nominal GDP. At the same time, the projected net decline in central bank credit to the nonfinancial public sector in 1990 would allow for increases in credit to the private sector in real terms during the program period.

c. External sector prospects and policies

25. Despite the recent strengthening in Bolivia's external payments position, exports in volume terms are still well below the average levels of the seventies, imports are correspondingly low and the external debt burden is high. Over the medium term Bolivia will continue to require rescheduling of obligations to official creditors. Moreover, Bolivia's external prospects will continue to hinge crucially on gas exports to Argentina (currently 32 percent of total exports) and the timely payments for these exports.

26. The Government's policies are aimed at fostering rapid growth of nontraditional exports and efficient import substitution. Total exports over the period 1989-92 are expected to rise at an annual average rate of 8 percent in volume terms. Exports of natural gas are not projected to increase in volume terms over the program period, and the growth in mining and petroleum exports is expected to be moderate because of declining international prices and the long gestation periods for investments in this sector. A more rapid expansion is expected in nontraditional products; in particular, soybean exports are expected to show volume increases of around 10 percent per annum, while exports of light manufactures are projected to rise by almost 20 percent per annum in volume terms from a very low base. After rising by 12 percent in 1989, reversing the decline in 1988, imports are projected to rise by 9 percent a year in value terms, or 5 percent a year in volume terms. The current account deficit (excluding official transfers) is expected to widen from 9.0 percent of GDP in 1989 to 10.0 percent of GDP in 1990 before declining to 9.5 percent of GDP in 1992.

27. Specific agreements with Argentina and Brazil will strongly influence Bolivia's balance of payments prospects after 1992. The current contract for gas exports to Argentina expires in 1992 and Bolivia is making its best efforts to renew this contract. In July 1989 the Government reached agreement with Brazil whereby Bolivia will build a power plant in Puerto Suarez to export electricity to Brazil from 1993. These exports, using natural gas as a feedstock, would require major investments in Puerto Suarez and the Government will request financing from the Inter-American Development Bank, the World Bank and the Government of Japan, and will seek participation from the private sector. In addition, two major chemical projects using hydrocarbons feedstocks are being negotiated with Brazil. The investments and exports that may emerge under the agreements with Brazil have not been incorporated into the baseline medium-term projections in this document. The medium-term projections also assume that exports of gas to Argentina will continue at the same level after the expiration of the present agreement between the two countries.

28. The Government will continue to pursue a flexible exchange rate policy and will seek to improve Bolivia's international competitiveness over the program period. Exchange rate policy will be geared to supporting the process of export diversification and efficient import substitution, and will be guided by the evolution of exports and the overall balance of payments. The present system of a unified foreign exchange market operating through daily exchange auctions operated by the Central Bank with unrestricted access will be maintained. The Government recognizes that the flexibility afforded by this system is essential to the efficient allocation of foreign exchange.

29. The Government will also pursue other measures to enhance Bolivia's competitiveness and to develop new exports. Export procedures will be simplified in 1990. PROBOL, a privately funded and administered institution which incorporates the National Institute for Export Promotion (INPEX) has been set up to provide information and guidance on export procedures and foreign markets to potential exporters and to promote foreign investment in Bolivia. A supreme decree broadening the scope of a system of in-bond imports will be issued before the end of 1989. The approval and implementation of the foreign investment code planned for late 1989 should also help in promoting exports.

30. Bolivia's external trade and payment system is virtually free of restrictions. Arrears to commercial banks are expected to be eliminated by March 1990 with the completion of the debt buyback or debt exchange scheme. The licensing of sugar imports that expires in 1990 will not be renewed and the license requirement for edible oil will be eliminated before end-December 1989 and there are no licensing requirements or quotas for other imports or for exports; import prohibitions solely reflect health and security considerations. No quotas or prohibitions will be imposed. As already noted, the Government plans to resume the planned quarterly reductions in the import tariff on imports other than capital goods in 1990 and the tax rebate (CRA) on exports will be

replaced by a duty drawback scheme by September 1990. Through a supreme decree issued on June 13, 1989, the Government has eliminated all tariff exemptions other than the exemptions for the diplomatic corps and the exemption for donated wheat that will be eliminated after the revision of grant agreements to allow wheat to be sold at opportunity prices, which is expected to take place by December 1989. Bolivia's accession to the GATT was completed in September 1989.

31. The agreement with Argentina resulted in a 18 percentage point decline in the debt to GDP ratio in 1989 and a further gradual decline is expected over the medium term. The Government expects to eliminate the remaining external debt with commercial banks by March 1990 through additional buybacks and exchanges, and the assistance of donors is being sought to finance these operations. The Government has also requested access to the proposed World Bank facility under which funds are made available to retire the commercial bank debt of IDA borrowers. Negotiations are in progress with Brazil on the restructuring and the reduction of the external debt with that country. The Government has created an inter-ministerial Committee for External Finances, chaired by the Minister of Planning, which will oversee and coordinate the Government's debt policy, with the Central Bank in charge of its administration. To improve the debt profile over the medium term, the Government will adhere to its policy of relying almost entirely on external grants and concessional external borrowing to finance the external current account deficits. Specifically, the Government will not enter into commitments or provide guarantees for nonconcessional medium- and long-term external loans with the exception of some small amounts of loans with an original maturity of more than one year and up to ten years and the possible financing for the Brazilian projects. The stock of public and publicly guaranteed short-term debt, excluding central bank reserve liabilities and normal trade credits, will not be increased. As explained in the final section of this paper, part of the financing requirements for the period 1990-92 will have to come from further rescheduling of maturities due to official bilateral creditors, and the Government intends to request the concessional terms granted by Paris Club creditors to heavily indebted low-income countries.

IV. Sectoral Policies

(i) Social sectors

32. The Government's program during the next three years will emphasize increasing access to basic education, infrastructure projects in health and education, and improving basic health services. Basic educational services will be improved through increasing expenditures on materials, rehabilitating school buildings, raising teacher salaries and improving teachers' training. These efforts will be funded by increasing efficiency in the management of basic education and limiting public expenditures on post-secondary education. After careful study, the management of education will be decentralized to improve the responsiveness of

schools to local concerns. Incentives will be provided to nongovernmental organizations to increase educational services, particularly in rural areas.

33. An extensive survey of the provision of health services has been carried out to identify possible areas of improvement. A program of decentralization within the Ministry of Health and improved coordination among other entities providing health services is now being implemented, with assistance from the World Bank. The provision of basic health services will be strengthened, focusing particularly on a safe motherhood and child survival program, to provide a basic health care package to the most vulnerable groups within the Bolivian population. As part of this program, access to family health education and related services will be increased and outreach activities undertaken to increase community participation in the management of health care services.

34. The Government will also pay increased attention to social issues. While tight control over spending will be maintained, the Government intends to shift expenditures toward the provision of services to low income groups in each sector. The Government is setting up a Social Investment Fund (SIF) to carry forward the successful experience of the Emergency Social Fund, which will cease operations in 1990. The SIF will continue to support small-scale projects in social assistance and social infrastructure, principally in health and education. The Government intends to ensure a smooth transfer of responsibility from the Emergency Social Fund to the SIF, avoiding disruption of ongoing projects and maintaining the ESF's efficiency of operations and successful mobilization of foreign resources.

(ii) Agricultural policy

35. Bolivia must overcome major obstacles if it is to realize its considerable agricultural potential. The agricultural sector suffers from institutional weaknesses, including the lack of extension services. In the Altiplano these deficiencies have compounded the difficult agronomic conditions, while development of the fertile Eastern Lowlands has been constrained by poor or nonexistent transport facilities.

36. The Government's strategy aims both at increasing food production for domestic consumption, so that reliance on food aid will be phased out, and at expanding agricultural exports. The strategy envisages a further large expansion of the area under soya for the export market, while gains for the majority of other crops are expected to come primarily from improved yields. For the immediate future, the Government's program in agriculture will focus on three principal areas: (i) further work on strengthening public sector institutions; (ii) maintenance of a framework of policies conducive to private sector development; and (iii) the provision of technical assistance and credit to areas with most immediate promise of rapid agricultural growth, particularly in the Eastern Lowlands.

37. The Ministry of Agriculture's (MACA) policies will be guided by a sectoral development strategy, including studies of the agricultural credit system, aid coordination in agriculture, agricultural investment expenditures and land use and tenure, to be completed by late 1990. The Ministry of Agriculture will receive technical and financial support to improve its operational efficiency, provide a policy framework for public sector investments in agriculture and create a mechanism for the identification and preparation of development programs. A review of reorganization proposals for MACA will be completed in 1989 and MACA will implement the reorganization in 1990. Proposals for the reorganization of the Banco Agricola (BAB) designed to improve its financial situation, and to increase the availability of credit for small and medium-sized farmers and cooperatives through the Rural Development Fund have been completed and will be implemented before the end of 1990.

38. The Government will continue to avoid interference with the market determination of agricultural prices and no price controls will be introduced during the program period. All consumer and producer price supports were eliminated in August 1985. The state licensing of sugar imports will be eliminated by the end of 1990 and the licensing requirement for edible oil will be eliminated before end-December 1989. The Government will also prepare a plan for reducing Bolivia's reliance on foreign food donations in 1989 for implementation in 1990-92, and negotiate improved access to international markets for Bolivian agricultural exports. A particular area of concern is policies governing land use and the legal framework of land tenure, especially the establishment of title to land holdings. The process of land titling has been speeded up. This process will be further streamlined to encourage more sustainable agricultural development.

39. The Government will develop the considerable potential for commercial agriculture, particularly in the lowlands but also in the Altiplano and Valley regions with international assistance. This program will improve agricultural technology and extension and will promote sustainable agricultural development. To foster development of the lowlands and build up the growth in soya production, projects will be implemented to improve infrastructure and marketing services.

40. The Government will continue to try to reduce coca leaf production. Rural development programs have already been initiated in the valleys of the Yungas and in the Chapare region. These programs are based on the voluntary conversion of areas devoted to coca leaf production to other crops and backed by an eradication effort in case of noncompliance. The programs are also accompanied by the creation of marketing channels, extension services and infrastructure improvements to increase the productivity of alternative crops.

(iii) Mining policy

41. The Government's mining policy is designed to encourage the expansion of private activity and improve the efficiency of government owned mines. After a complete production halt in 1987, COMIBOL operations have been decentralized and rationalized: several mines resumed operations in 1988 and COMIBOL's principal mines are expected to become fully operational again in 1989. COMIBOL's rehabilitation will enable it to become a sound partner in joint ventures with the private sector. Areas for joint ventures have been identified and bids issued, and the Government expects to negotiate and sign contracts in the near future.

42. To encourage private sector production, revised mining and investment codes and tax codes will be sent to Congress and restrictions in private exploration in areas previously reserved for the public sector will be lifted. The mining code provides for a modern cadastral claim recording system and establishes a legal framework for the operation of joint ventures. The investment code allows for unhindered profit repatriation with no discrimination against foreign investors, while the tax code will allow companies to opt for taxation of actual income rather than imputed income. Regulatory improvements are planned, including the provision of technical assistance, training and equipment to the geological service (GEOBOL) to support exploration; a restructuring of the Ministry of Mining and Metallurgy to enhance its coordinating role; and the merging of existing public sector institutions into a new Mining Development Institute and a Technical Mine Cadastral Service to improve the administration of claims and to improve mining and metallurgical services. The state mining bank (BAMIN) has been partially privatized and is being restructured; technical assistance will be provided for project evaluation with a view to making it an effective institution for financing small- and medium-sized mining operations.

(iv) Energy policy

43. The energy sector offers excellent opportunities for growth over the medium term. The Government's efforts will be focused on increasing domestic use of natural gas, increasing exports of liquid hydrocarbons, selling electric power and petrochemicals to Brazil, increasing private participation in the energy sector and integrating Santa Cruz with the western power network to allow more efficient use of the existing electrical power capacity.

44. The Government has been encouraging the domestic consumption of natural gas. Two pipelines from the gas fields to major urban centers were completed in 1988 and joint ventures with private firms to construct and operate local distribution facilities have been instituted. The use of compressed natural gas in motor vehicles will be promoted.

45. Exports of liquid hydrocarbons will be increased also by encouraging production by the private sector. To this end, during 1988 and 1989 the Government settled longstanding arrears to two foreign-owned petroleum companies. Under the terms of this agreement, the companies are committed to invest in Bolivia about half of the arrears settlement before 1992. The Government also has signed agreements with a number of oil companies for the exploration of potential oil and gas deposits. In addition, petroleum output is expected to increase with the completion in April 1989 of the gas recycling project at Vuelta Grande. The Government will maintain energy prices so as to provide adequate incentives for domestic production and efficient energy use. A hydrocarbons bill will be submitted to Congress in 1989 allowing for the exploitation through joint ventures with the private sector of oil fields currently reserved for YPFB to be implemented in the near future.

46. Negotiations are continuing with Brazil on the proposed sale of electricity and petrochemicals (urea and polyethylene) to that country, and agreements were signed in July 1989 in which the production level and pricing formula for the supply of electricity were agreed. Details of production and the pricing formula for petrochemical are under negotiation. The World Bank and the Inter-American Development Bank (IDB) will evaluate the Government's request to help finance the construction of a 450MW power plant on the border with Brazil and the related gas pipeline from the Santa Cruz gas field; if this project is judged viable, construction will have to begin in 1990. The impact of the gas pipeline on the environment will be considered during the design of the project and measures shall be taken to redress negative effects.

47. The state electricity company (ENDE) is expanding and rehabilitating the power distribution system with the support of an IDA credit. A 220kv transmission line between Cochabamba and Santa Cruz has been constructed, thereby allowing the west of the country to make use of low-cost gas-based generation capacity in Santa Cruz, and two 20MW gas-fired turbines--one in Santa Cruz and one in Cochabamba--will be added to the system in 1990-91. The Government is renegotiating a long-term concession to the privately-owned Bolivian Power Company (COBEE) which will continue that company's role in generating power in Bolivia. The municipality of La Paz would negotiate with COBEE the concession of power distribution in La Paz. Further commitment of new projects for the power system will await the completion by end 1989 of a least-cost expansion plan for the generation and transmission of power throughout the country. A national energy plan, which is being prepared with external assistance, should be finalized in late 1989.

(v) Transportation policy

48. Adequate maintenance, repair, more efficient operation and judicious extension of the transportation system are prerequisites for economic growth and export competitiveness over the medium term. During 1988, a new shorter main road connecting Santa Cruz and Cochabamba was completed; construction was begun on rerouting a difficult and unsafe

section of the road from La Paz to the Beni; and commercial use of the Paraguay River by Bolivia became feasible for the first time with the opening of a private grain terminal on the river. Over the next three years, the Government will give priority to four areas: (i) the most pressing need is the rehabilitation of existing roads and rail links, especially in the departments of Cochabamba and Santa Cruz, where considerable agricultural potential exists; (ii) a second priority is the integration of the three main populated areas by paving the still unpaved portions of the La Paz-Cochabamba highway and the improvement of the principal roads in the south of the country (Oruro-Potosi-Tarija-Bermejo and Potosi-Sucre); (iii) additional work is necessary along the two main export corridors to the Atlantic and Pacific oceans; and, finally, (iv) construction of penetration roads connecting the main population centers with the lowlands and with navigable rivers will be considered in light of the resources available and the potential effect on the environment. As regards the export corridors, improving the operation of the rail line from Santa Cruz to Corumba (Brazil), together with the already-mentioned grain terminal on the Paraguay River, will give Bolivia lower-cost access to the Atlantic Ocean. Upgrading of rail and road connections between La Paz and northern Chile also will lower transportation costs. As to the penetration roads, such roads in the northern and north eastern portions of the country would open up major areas with potential for petroleum, livestock, forestry and general agriculture.

(vi) Financial sector policy

49. The Government has undertaken an extensive restructuring of the banking system to assist its recovery from the extreme economic instability experienced in the early 1980s. Measures that were adopted include freeing of interest rates, resolution of outstanding problems stemming from the dedollarization decree of 1982, reorganization of the Central Bank and other public sector banks, and the strengthening of banking supervision through creation of an independent Banking Superintendency, the tightening of banking regulations and mandatory comprehensive audits of banks. Financial assistance has been provided to refinance bank loans to the productive sector, subject to compliance with strict financial criteria and the implementation of rehabilitation measures, including recapitalization. These steps, in conjunction with greater economic stability, have helped to strengthen the banking system, although serious deficiencies still exist in the portfolios of many banks.

50. The Government attaches a high priority to maintaining the impetus of the financial reform program. Future work will consist of strengthening the Superintendency's power to regulate the banking system, completing the reorganization of public sector banks and deepening the financial market. Statutes giving legal power to the Superintendency have been issued as a Supreme Decree and the Government has prepared amendments to several articles of the Banking Law aimed at broadening the powers of the Superintendency. The Government is also

undertaking a program to strengthen the Central Bank with technical assistance from donors. The Central Bank has strengthened its operating and accounting procedures over the past two years, with the assistance from the Fund, and has enhanced its ability to reinforce the banking system through rediscount lines. To support efficiency in financial intermediation and improved techniques of monetary control, the Central Bank began issuing certificates of deposit (CDs) at the end of 1987 and started auctions for the placement of CDs in early 1989. Within the next two years the national securities exchange is expected to begin operations. Over the longer run, creation of pension funds based on capitalization of benefits may also play a significant role in increasing private savings and broadening the capital market.

(vii) Environmental policies

51. Bolivia faces problems in managing the sustainable exploitation of its natural resources including the prevalence of slash and burn agriculture, indiscriminate harvesting of forests, severe water erosion and environmental damage from mining and road construction. The Government will prepare a strategy for handling environmental issues and examine the adequacy of the legal framework for dealing with environmental issues during 1990. In the agricultural sector, through the work of the newly created Subsecretary of Natural Resources and the Environment, attention will be focused on the establishment of a system to monitor and plan for the environmentally sound development of the large Eastern Lowland areas, the implementation of the plan of action to manage forest resources and the implementation of a program to protect wildlife. The environmental effects of road construction, the impact of road penetration on tribal people and wilderness areas will be taken into account in planning new transport facilities. A national mining environmental protection plan is to be drawn up by 1990.

V. External Assistance Requirements

52. Bolivia has achieved much in the last four years, taking bold actions to address imbalances and lay the foundation for sustainable growth even as the external environment deteriorated. It has taken great efforts by the Government and by the international community to regain this stability. Yet, the Bolivian economy still has a long way to go even to regain past levels of per capita consumption. In the face of this continued challenge Bolivia will require strong financial support over the medium term.

53. The implementation of the policies outlined in this PFP would help strengthen the balance of payments through sustained growth in exports over the medium term. In addition, the Government will seek to attract new capital inflows through encouraging joint ventures, through revisions to the mining, hydrocarbon and investment codes to promote foreign direct investment, and through the pursuit of an adequate exchange rate policy and prudent financial policies.

54. The balance of payments outcome in 1989 is expected to be somewhat worse than programmed. At the same time, however, more rapid progress has been made in reducing external debt through buybacks and offsets of claims with favorable effects for future years. The current account deficit (before official transfers) is expected to narrow to 9.0 percent of GDP from 9.8 percent in 1988, but this improvement will be more than offset by a weakening of the capital account (Table 2). Even after the turnaround in the private capital outflows that occurred in mid-1989, for 1989 as a whole private capital outflows are expected to be US$139 million reflecting in a large part payment of arrears to foreign-owned oil companies. Thus, despite an increase in official loan disbursements of US$60 million and a similar level of grants as recorded in 1988, the net international reserve position is projected to decline by US$108 million, after total debt relief of US$140 million.

55. In 1990, the first full year covered by this PFP, total financing requirement will rise to US$835 million. The current account deficit (before official transfers) is expected to widen slightly to US$442 million or 10 percent of GDP; public debt amortization and repurchases to the IMF will increase by US$93 million; and there will be a need to reconstitute Bolivia's gross official international reserves. Official transfers are expected to decline by US$29 million to US$138 million, since most of the debt reduction financed through donations is expected to take place in 1989. Disbursements of official long-term loans are expected to decline by US$35 to US$345 million reflecting a reduction in lending from IDA and a small decline in bilateral lending after the sharp increase in 1989 that included the first tranche of Japanese cofinancing of the World Bank's Financial Sector Adjustment Credit. Continuing the reversal of trend established in the second half of 1989, private capital inflows are expected to turn around to reach US$94 million in 1990. Taking into account this inflow, the financing gap in 1990 would be US$196 million which is expected to be covered by the rescheduling of official bilateral obligations.

56. After 1990 the current account deficit (before official transfers) is projected to increase to US$480 million in 1992 as a result of a widening of the trade deficit. However, in terms of GDP, the current account deficit (before official transfers) is projected to narrow slightly from 10.0 percent of GDP in 1990 to 9.5 percent of GDP in 1992. Public debt amortization is projected to increase from US$227 million in 1990 to US$261 million in 1992. Repurchases to the Fund will increase sharply to US$43 million in 1990 as purchases from the 1986 stand-by arrangement begin to fall due but will decline to US$36 million by 1992. The target of gross reserve accumulation has been raised somewhat, compared with the projection in the previous PFP in 1991 and 1992 in view of the circumstances surrounding gas exports over the medium term. Reflecting these factors, Bolivia's financing requirements of the balance of payments are projected to average US$788 million a year in 1991-92.

57. These financing requirements are expected to be met to a large extent by official grants and loan disbursements from multilateral and bilateral sources. Official grants are projected to average US$150 million a year in 1991-92, and gross official disbursements are projected at US$366 million a year on average in the same period. Disbursements from the World Bank are projected to reach US$82 million in 1992 and bilateral disbursements are expected to increase to average US$90 million in 1991-92. The last disbursement from the Fund under the ESAF program of US$31 million is expected to take place in 1991. In line with the Government's policies designed to attract direct foreign investment, private capital inflows are projected to average US$77 million in 1991-92 after the recovery of US$94 million in 1990. Additional external resource requirements averaging US$180 million are projected for that period. These requirements are expected to be covered by further rescheduling of official bilateral debt and additional donors support.

58. Bolivia's public external debt service burden (including repurchases to the Fund) is expected to remain heavy during the period to 1992. In 1989 the debt service ratio (before rescheduling) fell sharply to 50 percent, reflecting the agreement with Argentina which cut interest payments by US$55 million a year. Between 1990 and 1992 the debt service ratio is expected to rise slightly to 53 percent and thereafter decline. Similarly, the ratio of medium- and long-term public debt to GDP, which declined by 18 percent in 1989 is expected to rise to 87 percent by 1992 and thereafter decline.

Table 1. Bolivia: Selected Economic and Financial Indicators

	1987	1988 Prog. 1/	1988 Est.	1989	Projections 1990	Projections 1991	Projections 1992
	(Annual percent changes, unless otherwise stated)						
Income and prices							
GDP at constant prices	2.1	2.5	2.8	2.8	4.0	4.2	4.5
GDP deflator	16.0	16.0	15.1	13.8	11.5	9.3	6.6
Consumer prices (end-of-period)	10.7	12.5	21.5	12.5	9.0	7.3	5.5
Consumer prices (period average)	14.6	11.6	16.0	14.3	12.1	8.6	6.0
External sector (on the basis of U.S. dollars)							
Exports (c.i.f.)	-10.7	8.8	5.4	21.1	0.6	12.2	10.6
Nongas exports (c.i.f.)	3.5	28.1	23.3	33.0	3.7	13.8	13.1
Imports (c.i.f.)	13.8	9.6	-8.8	12.3	9.7	9.2	8.9
Export volume	-1.9	12.6	10.5	13.9	8.0	4.6	5.6
Import volume	9.2	2.0	-14.2	8.0	5.5	4.7	4.5
Terms of trade (deterioration -)	-12.7	-10.1	-10.4	2.2	-10.5	2.8	0.5
Real effective exchange rate (depreciation-)							
End of period	-14.3	-5.9	3.2	-6.2	...	...	...
Period average	-3.8	-7.2	-5.1	...	...	...	...
General government 2/							
Revenue and grants	9.0	32.3	29.3	15.4	21.7	14.4	9.5
Total expenditure	20.8	23.9	27.4	13.6	14.8	12.7	9.5
Money and credit 3/							
Net domestic assets	44.2	29.2	42.8	29.9	0.7	6.3	5.5
Credit to nonfinancial public sector	33.3	11.4	29.9	30.4	-6.1	-14.2	-14.7
Credit to private sector	35.7	27.1	24.8	28.1	16.9	23.5	20.5
Medium- and long-term liabilities	3.6	-15.2	-19.3	-24.7	-13.0	-3.8	-1.1
Broad money	40.9	18.0	36.3	11.2	16.9	12.9	11.3
Interest rate on local currency deposits (end-of-period; percent per annum)	32.7	...	27.8	...	...	...	...
	(In percent of GDP)						
Nonfinancial public sector savings 2/	-1.9	0.1	0.6	1.1	4.0	4.1	4.2
Nonfinancial public sector deficit 2/	-7.8	-6.7	-6.7	-5.0	-3.3	-3.3	-3.2
External financing	2.5	5.4	4.7	3.0	5.2	5.6	5.7
Domestic financing	5.4	1.3	2.0	2.0	-1.9	-2.3	-2.5
Gross domestic investment	11.1	12.7	11.9	12.4	15.0	16.0	16.9
Gross national savings	1.5	2.6	5.0	6.3	8.0	9.2	10.5
External current account deficit 4/	9.7	10.1	6.9	6.2	6.9	6.8	6.4
Before official transfers	12.2	12.8	9.8	9.0	10.0	10.0	9.5
Public sector external debt 5/	103.2	91.8	97.7	79.7	88.6	89.4	87.1
Debt service due 6/	80.0	70.4	66.8	49.8	58.6	56.0	52.9
Debt service paid 6/	30.4	48.3	38.2	28.5	34.2	35.9	34.2
	(In millions of U.S. dollars)						
Change in net official reserves	-41.0	-71.4	-46.3	-108.3	105.0	50.0	50.0
Gross official reserves (months of imports, c.i.f.)	6.9	5.8	6.6	5.2	6.4	6.3	6.0
Public sector external debt (in billions of U.S. dollars) 7/	4.34	3.93	4.26	3.54 8/	3.87	4.16	4.42

Sources: Central Bank of Bolivia; Ministry of Finance; and Fund staff estimates.

1/ Program targets have been adjusted for the nonpayment of US$101.0 million of arrears by Argentina. The balance of payments targets have been adjusted to reflect a revision in the methodology to calculate freight and refining costs of mineral exports.
2/ Gas export receipts and interest payments on a payments due basis.
3/ Effective flows at each year's accounting exchange rate as a percentage of stock of liabilities to private sector at the beginning of the year.
4/ Excludes official grants for the debt buyback.
5/ Includes obligations to the Fund and debt with public guarantee.
6/ On public sector medium- and long-term external debt including payments to the Fund in percent of exports of goods and nonfactor services.
7/ Program and actual debt stocks in 1988 are not comparable because of data revisions.
8/ Includes the effect of the debt cancellation agreement with Argentina.

Table 2. Bolivia: External Financing Requirements, 1988-92

(In millions of U.S. dollars)

	1988		Projections			
	Prog.	Prel.	1989	1990	1991	1992
Requirements	932.6	740.8	621.4	834.9	786.5	790.1
Current account (excluding official tranfers)	606.4	427.1	400.0	441.6	462.6	479.6
Public debt amortization	161.2	175.6	170.3	227.0	243.2	260.5
Debt reduction	--	47.6	40.8	--	--	--
Net change in arrears 1/	13.0	45.5	57.3	--	--	--
IMF repurchases	49.1	48.9	6.7	42.6	43.4	35.5
Change in gross official reserves 2/	102.9	-3.9	-53.7	123.7	37.3	14.5
Disbursements	790.7	502.8	481.1	638.4	610.6	606.0
Official grants 3/	117.6	171.5	167.0	138.0	146.3	153.6
Long-term loan disbursements 4/	340.4	318.8	380.0	344.8	358.6	372.9
Multilateral	270.4	291.5	282.6	257.1	251.3	300.2
of which:						
World Bank/IDA	120.2	111.6	110.2	57.5	75.0	82.0
existing commitments	...	...	...	34.3	21.1	15.9
expected commitments	...	...	...	23.2	53.9	76.1
Bilateral	70.0	27.3	97.4	87.7	107.3	72.7
IMF 5/	122.4	91.3	61.3	61.3	30.7	--
Overdue gas receipts 6/	119.6	-10.7	11.9	--	--	--
Other capital (net) 7/	90.7	-68.1	-139.1	94.3	75.0	79.5
Debt relief	141.9	238.0	140.3	...	...	...
Financing gap	--	--	--	196.5	175.9	184.1

Sources: Government of Bolivia; World Bank; and Fund staff estimates.

1/ Excludes arrears to foreign commercial banks but includes change in interest arrears to Argentina.
2/ Net of liabilities to the Andean Reserve Fund and other short-term liabilities.
3/ Includes donations for debt reduction.
4/ All disbursements are from official creditors, and exclude possible financing for hydrocarbon export projects under the agreement with Brazil.
5/ Includes a purchase under the Compensatory Financing Facility in 1988; all other disbursements are under the Enhanced Structural Adjustment Facility.
6/ In 1989 includes the net effect of the bilateral debt cancellation agreement with Argentina.
7/ Direct foreign investment, short term and unidentified capital flows.

Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-92 1/

Policy Areas and Objectives	Policy Measures Required and Original Timetable 2/	Measures Already Implemented	Timetable and Specific Measures
1. External sector			
a. External trade and payments policy			
(1) Maintain uniform import tariff without duty exemptions	Lower tariff on imports other than capital goods by 1 percentage point a quarter until reaching a uniform rate of 10 percent in 1990. Maintain uniform tariff thereafter	Reductions in tariffs suspended in December 1989 with tariff on noncapital imports of 17 percent	Resume quarterly reductions of 1 percent in March 1990 to reach a uniform tariff of 10 percent in September 1991 *
	Eliminate the import duty exemption for wheat in October 1988	Not implemented	Eliminate exemption when donated wheat can be sold at opportunity prices (1989)
(2) Promote export growth and diversification	Rebate customs duties and indirect taxes to exports of nontraditional items	Tax rebate equal to 10 percent of the value of nontraditional exports implemented in 1988	Phased elimination of tax rebate in line with tariff reduction and replacement by a duty drawback scheme by September 1990 *
	Nonrenewal of licensing requirements for sugar imports in 1990		End-1990
	Make National Institute of Export Promotion (INPEX) operational in 1988	Operational	Set up Probol, (incorporating INPEX) to provide information to potential exporters and promote investment (1989)
	Simplify export procedures by mid-1988	Not implemented	1990
b. External borrowing			
(1) Restore international creditworthiness	Regularize bank debt through buyback, debt conversion and renegotiations (1988)	First phase of buyback completed in mid-1988	All remaining debt to be retired by March 1990
	Request annual Consultative Group meetings; borrow at concessional terms	Consultative Group meeting (CGM) held July 1988	Net CGM scheduled for October 1989; Annual meetings thereafter
(2) Improve terms of external financing	Seek switch of bilateral assistance to grants	Grants increased as a percentage of total aid flows in 1988	Continue this policy 1989/92

Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-92 1/ (Continued)

Policy Areas and Objectives	Policy Measures Required and Original Timetable 2/	Measures Already Implemented	Timetable and Specific Measures
	Obtain debt relief from official bilateral creditors	Paris Club meeting held in November 1988	Paris Club meeting to be requested in early 1990
		Agreement with Argentina to cancel bilateral debts	Seek comprehensive solution of Bolivia's debt to Brazil (1990)
(3) Improve debt monitoring	Establish monitoring and control system for external public and publicly guaranteed debt (mid-1989)	System established	Emphasis now on maintaining information flows from creditors and debtor agencies within the public sector. Develop a system of debt service projections and simulations (1990)
2. <u>Fiscal policy, public sector management and private sector incentives</u>			
a. <u>Public sector revenues</u>			
(1) Raise tax revenue while lowering the dependence on the hydrocarbon sector	Continue implementation of the emergency tax program	In 1988: sales tax on consumer durables introduced; value added tax extended In early 1989: regional bureaus to monitor large tax payers opened; rate of presumptive corporate tax and sales taxes on beer and electricity increased	Issue regulations to collect the tax on soft drinks (1989). Modify Tax Code to create adequate penalties for tax delinquency (1989) * Begin collecting rural land tax in the fourth quarter of 1989
		Regulations for rural land tax effective June 1989	Study of reform of customs administration to be completed in December 1989 Implement reform of customs administration (1990)* Change base of the presumptive corporation tax from net wealth to gross assets and modify rate tax to increase yield (1990 budget) Increase the rates of the value added tax, the simplified and the complementary regimes from 10 to 12 percent (1990 budget)*
	Generate state enterprises savings	Public enterprise savings increased in 1988 following sharp price increase in April 1988 and August 1989	Public sector prices to be adjusted so as to at least be maintained in real terms (1990-92)
b. <u>Public sector current expenditure and management</u>			
(1) Reduce size and improve quality of civil service and state enterprise staff	Rationalize public sector employment	Staff reduction in YPFP completed	Efforts to be continued in 1990-92

Bolivia: *Summary and Timetable of Implementation of Principal Policy Measures, 1988-92* 1/ (Continued)

Policy Areas and Objectives	Policy Measures Required and Original Timetable 2/	Measures Already Implemented	Timetable and Specific Measures
	Introduce incentive pay scales for specialists and top-level managers (1989-91)	Survey of public sector pay and employment completed	1989-91 in phases
(2) Improve public sector efficiency	Reorganize public sector entities and enterprises, in particular the Ministries of Finance, Agriculture (MACA) and of Planning and Coordination, YPFP, ENDE, ENFE, and the municipalities	YPFP reorganization progressed in 1988 (administration of drilling and pipeline operations centralized; profit centers created and staff reduced by 500); MACA reorganization underway. Restructuration of Ministry of Finance in process. Study of ENFE's operations completed (1989) Private companies allowed to retail petroleum products	1989/92 with particular emphasis on ENFE in 1989 Evaluation of each state enterprise, public service and utility to establish whether it should be offered for partial or full privatization (1990)*
	Implement the emergency information and control system as a precursor of the Integrated System of Financial Administration and Government Control (SAFCO) by mid-1988	SAFCO system operating and assisted in preparation of 1989 budget but enabling legislation not passed. Supreme Decree issued covering most of the Law	Re-submit SAFCO Law to Congress (1989)* Implementation of measures in the SAFCO Law (1989-1991) Incorporate SAFCO budget norms into 1990 budget Prepare a study of the privatization of the social security system, 1990
c. Public investment			
(1) Improve and expand basic infrastructure	Establish three-year public investment program and review it annually	Established in 1988 but 1989 not as yet reviewed	Review in October 1989, early 1990 and early 1991
(2) Improve planning, project screening, and monitoring capacity	Examine loan commitments and ongoing projects to ensure the attainment of priority objectives (mid-1988)	Mid-year exercise identified bottlenecks and helped accelerate implementation	Closely monitor the implementation of public sector investment program and address delays (1989-92)
d. Private investment			
(1) Support increases in private investment including foreign investment specially in export sectors	Provide a stable regulatory framework with freedom to hire and fire, transparency in collective bargaining and no limit on profit remittances; supported by infrastructure investment and financial sector reform	Maintained	Submit revised investment, mining and hydrocarbon codes as well as new taxation rules for mining to Congress in 1989 (see below)* Set up investment promotion agency within PROBOL in 1989 (see above)
3. Sectoral Policies			
a. Social Sector Policy			
(1) Increase expenditure on social infrastructure	Implement targeted work progress through the Emergency Social Fund (ESF) so as to alleviate the social costs of adjustment (1988-89)	ESF operating successfully	Transfer responsibilities of the ESF to the Social Investment Fund in health and education in 1990

Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-92 1/ (Continued)

Policy Areas and Objectives	Policy Measures Required and Original Timetable 2/	Measures Already Implemented	Timetable and Specific Measures
(2) Strengthen provision of basic health services	Improve programming, budgeting and implementation capacity of central health unit and decentralized regional authorities (1988-91)	Begun program to strengthen local health service units and established national health care project Administrative deconcentration begun in three departments	Deconcentrate administration of health services and reorganize Ministry of Health to emphasize policy and coordination rather than provision of services (1990)
	Establish a safe motherhood and child survival program within a basic health care package	Established secretariat in the Ministry of Health to coordinate program combining existing health services as initial phase of program	1990
	Increase access to family related health services		
	Target nutrition surveillance, food supplementation and growth monitoring	Identified target groups for nutrition program and initiated food programs	
(3) Improve basic education	Increase funds available for primary education through reducing expenditures on post secondary education, and increase expenditures on materials and rehabilitation of inadequate school buildings	Construction and repair of 400 schools completed (financed through ESF) One million new school books distributed	Increase efficiency in the management of basic education (1990)
	Improve training of teachers	Training program for existing teachers established Teacher colleges reopened for basic school teachers	1989-92
	Decentralize the management of education to increase responsiveness to local concerns		1989-92
b. Agriculture			
(1) Strengthen public sector institutions	Reorganize Ministry of Agriculture to play major role in sectoral development (1988)	Supreme Decree written to establish organization, legal statutes for MACA Budget approved consistent with new MACA organization	Continued implementation of reorganization, based on recommendations of study (1989-92)* Improve land titling procedures (1989-92)
(2) Development of commercial agriculture in the lowlands		Large increase in soya production assisted through provision of credit and improvements in transportation	Design and implement projects to improve infrastructure and marketing services (1989-92)

Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-92 1/ (Continued)

Policy Areas and Objectives	Policy Measures Required and Original Timetable 2/	Measures Already Implemented	Timetable and Specific Measures
(3) Provide alternatives to coca leaf production	Continue with substitution and eradication programs, supported by technical assistance, credit and infrastructural improvements	Approved Law of Coca and Controlled Substance, along with implementing regulations	1989-92
		Achieved reduction of 1,400 hectares of coca in 1988-89, which makes a total of 3,400 hectares eliminated since 1987	
c. Mining			
(1) Improve incentive framework	Revise mining code and tax regulations, and implement the mining regulations	Code revised but not passed by Congress	Submit code to Congress 1989 and implement the new tax regime *
		Lifted restrictions on private explorations in area previously reserved for the public sector	
(2) Improve services to sectors	Support geological work and exploration		Enhance coordinating and policy functions of Ministry of Mining (1989-1992)
			Make claim system transparent and effective (1990)
			Improve mining and metallurgical services by merging previously dispersed functions (1990)
(3) Increase production	Restore reorganized and downsized COMIBOL to full operation (1988)	Production increased in 1988 but joint ventures delayed	1989
	Actively promote joint ventures between COMIBOL and private investors	Areas for possible joint ventures identified and invitations to bid issued	Negotiate and sign joint venture contracts (1989-92)
d. Energy			
(1) Improve incentive framework	Present changes and additions to hydrocarbons code to Congress (December 1988)	Delayed	Submit proposal to Congress in 1989 and implement the code's new tax regime *
	Actively promote joint ventures between YPFB and private investors, as well as direct foreign investment	Three contracts with foreign companies for operation signed	1989-92
	Pay arrears to petroleum companies (1988-89)	Settled in 1988 and early 1989	Avoid occurrence of new arrears (1989-92)
(2) Increase domestic use of natural gas	Conclude joint ventures with private firms to construct and operate local distribution systems	Four companies established. Six companies in operation (1989)	1990

Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-92 1/ (Continued)

Policy Areas and Objectives	Policy Measures Required and Original Timetable 2/	Measures Already Implemented	Timetable and Specific Measures
			Sign contract for sale of compressed natural gas in motor vehicles (1989)
	Complete gas pipeline to Altiplano and begin conversion to gas in Altiplano (1988)	Completed	
(3) Increase exports of crude petroleum	Complete gas recycling project at Vuelta Grande (1988)	Completed in 1989	
(4) Develop new export markets	Enter into agreements with Brazil for the sale of electrical power and natural gas derivatives	Negotiations underway	Finalize negotiations with Brazil (1989)
(5) Expand electrical power capacity and more efficiently use existing capacity	Connect Santa Cruz to the interconnected power system (1988/89)	Completed	
			Design least cost national plan for generation and transmission of power (1989)
			Present National Energy Plan (1989)
			Install further gas-fired turbines and hydroelectric power plants according to the National Energy Plan
e. Transport			
(1) Improve operations of existing infrastructure	Rehabilitate existing road and railway system with priority to departments of Cochabamba and Santa Cruz		Pave still-unpaved portions of La Paz-Cochabamba-Santa Cruz highway (1991). Improve the principal roads in the south of the country (1989-92)
(2) Create efficient export corridors and promote internal commerce through new road construction paying attention to environment concerns	Improve ENFE's operations, particularly along the Santa Cruz-Corumba (Brazil) line		Adopt new fare structure and obtain technical assistance to strengthen management (1990)
	Upgrade rail and road links between La Paz and northern Chile		1989-92

Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-92 1/ (Concluded)

Policy Areas and Objectives	Policy Measures Required and Original Timetable 2/	Measures Already Implemented	Timetable and Specific Measures
4. Financial Sector Policy			
a. Regulatory framework	Eliminate inconsistencies between the 1928 banking law and its many amendments	In progress	Present new banking law to Congress (1990)
	Continue to strengthen the supervisory role of the Banking Superintendency	Regulations governing capital requirements and collateral are being enforced together with new audit requirements	Implement legal statutes for Superintendency when approved by Congress (1990)
b. Rehabilitation of state and private banks	Implement reform of the state owned Banco Minero, Banco Agricola, and Banco del Estado (1988)	Sold off some of the equity of the Banco Minero and begun the restructuration process	Complete restructuring of Banco Minero (1990)
		Plans for restructuring of Banco del Estado and Banco Agricola issued	Implement plans (1989)
	Liquidate Banco de la Vivienda	Completed	
	Improve the Central Bank's accounting system	In progress	Complete improvements (1990)
c. Increase domestic resource mobilization	Create central bank open market operations (1988)	Certificates of Deposit (CDs) issued in December 1987 and CD auctions began early 1989	1989-92
5. Environmental Policies	Make the national securities exchange operational		1991
	Develop a long-term strategy to facilitate sustainable development of natural resources.	Established subsecretary of Natural Resources and the Environment within the Ministry of Agriculture	1990
		Completed Plan of Action for management of forest resources	
		Established program to protect wildlife	
	Examine adequacy of legal framework for dealing with environmental issues (1988/91)		1990
			Prepare National Mining Environmental Protection Plan (1991)

1/ For brevity the central elements of the strategy that have been implemented and will be maintained are not listed in this matrix. As discussed in the text, these include the maintenance of a unified flexible exchange rate, a trade and payments system free of restrictions, the market determination of interest rates and product prices, including those in the agricultural sector. In addition, the overall public sector deficit will be limited to less than available external financing; this objective will be supported by maintaining tight income and current expenditure policies, maintaining public sector prices, including domestic petroleum prices, in real terms, and avoiding subsidies.

2/ These measures were included in the Policy Framework Paper issued in June 1988.

* Priority measures.