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March 13, 1996

To: Members of the Executive Board

From: The Secretary

Subject: Bolivia - Enhanced Structural Adjustment Facility -
Economic Policy Framework Paper for 1996-98

Attached for consideration by the Executive Directors is the economic policy framework paper for Bolivia for the period 1996-98. This subject, together with the staff report for the 1995 Article IV consultation with Bolivia and its request for the second annual arrangement under the enhanced structural adjustment facility (EBS/96/32, 3/1/96), is now proposed to be brought to the agenda for discussion on Monday, March 25, 1996.

Ms. Brenner (ext. 38500) or Mr. Gudac (ext. 38619) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the Food and Agriculture Organization (FAO), the Inter-American Development Bank (IDB), and the United Nations Development Programme, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

BOLIVIA

Enhanced Structural Adjustment Facility

Economic Policy Framework Paper for 1996-98

Prepared by the Bolivian Authorities in Collaboration with the Staffs of the International Monetary Fund and the World Bank

March 12, 1996

I. Introduction

1. In August 1985 the Government of Bolivia adopted a far-reaching program of macroeconomic stabilization and structural reform aimed at restoring price stability and creating the conditions for sustained growth. The program has been supported by financial arrangements from the International Monetary Fund, and by structural adjustment credits and other assistance from the World Bank, the Inter-American Development Bank, and bilateral creditors and donors.

2. In November 1994 the Government of Bolivia presented to the Fund and the World Bank a policy framework paper (PFP) in which it set forth its economic objectives for 1994-97 and described the measures envisaged to attain these objectives.

3. The present PFP reviews progress in implementing the structural adjustment program in 1995, and updates the PFP of November 1994 by outlining the Government's objectives and policies for the period to 1998. Also, the paper assesses the likely external financing requirements in that period, together with available sources of such financing.

II. Economic Performance During 1995

4. The economic program for 1995 aimed at real GDP growth of 4 1/2 percent, a reduction of inflation to 6 1/2 percent, and an increase in net international reserves by US$40 million. The macroeconomic framework was designed to support a comprehensive program of structural reforms centered on the capitalization of the major public enterprises, administrative decentralization, and reforms of the education and pension systems. Tax measures were adopted to help cover the costs of reforms. To allow for one time costs of structural reforms, the program envisaged an increase in the deficit of the combined public sector to 4.4 percent of GDP, in line with the envisaged concessional net external financing.

5. Real GDP growth is estimated to have slowed from 4.2 percent in 1994 to 3.8 percent in 1995 reflecting the effect of a drought on agricultural output. Inflation rose from 8.5 percent during 1994 to 12.6 percent during 1995, mainly on account of the increase in the world price of wheat and the effect of the drought on food prices. Net international reserves increased by about US$115 million. The deficit of the combined public sector declined from 3.2 percent of GDP in 1994 to 2 percent of GDP in 1995, partly reflecting a slower than envisaged pace of structural reforms, and net external financing of the public sector more than covered the deficit. The external current account deficit is estimated to have increased from US$220 million in 1994 to US$365 million (6 percent of GDP) in 1995 as a result of a decline in official transfers and a deterioration in the terms of trade. The deficit was financed mainly by concessional capital inflows, direct investment, and debt relief granted by the Paris Club and other bilateral creditors.

6. Initially, the Government planned to capitalize all major public enterprises in 1995, but congressional approval of legislation needed and securing popular support for capitalization and other reforms took longer than expected. By mid-1995 the pace of implementation of reforms picked up markedly. The Government's capitalization/privatization program was launched in June 1995 when management and ownership of the three generating companies of the national electricity company, ENDE, were awarded to private investors with committed investments of US$140 million over a seven-year period. An electricity distribution company was sold for US$50 million in August, and management of the national telecommunications company, ENTEL, was awarded to a private investor in September, with committed investments of US$610 million over 6 years. Management of the national airline, LAB, was awarded to a private investor in October for the equivalent of US$47 million, and that of the national railways company, ENFE, was awarded in December for US$39 million. Also, 30 smaller public enterprises that belonged to the regional development corporations were sold or liquidated during the second half of 1995 with proceeds of US$12 million. To improve the regulatory framework, the New York Arbitration Convention has been ratified and the regulatory superintendencies for the electricity and telecommunications sectors have been established.

7. The Central Bank Law approved in October 1995 increases the independence of the Central Bank and establishes the pursuit of low inflation as the Bank's sole objective. The Law provides for central bank autonomy in the formulation and conduct of monetary and exchange rate policies and establishes the principle that there will be no central bank lending to the Treasury outside the Bank's monetary program. Also, the Central Bank Law provided for the creation of a nonbank financial intermediary (NAFIBO), which is a joint venture of the Government and the Andean Development Corporation (CAF), to take over from the Central Bank the on-lending of development funds to commercial banks.

8. To address problems in the banking system, in September 1995 the Government established a fund to help restructure and capitalize banks

(FONDESIF), to be financed mainly by loans from multilateral institutions and the Central Bank. FONDESIF will provide loans to banks to increase their capital and be used to repay central bank liquidity credits, reconstitute required reserves, and restructure bank loans to private sector borrowers deemed viable. The financial support to be provided to each bank will be based on a comprehensive analysis of its situation and a program that includes the write-off or provisioning for nonperforming loans, improvements in management approved by the new shareholders, and quantified targets for improvements in the quality of portfolio and efficiency of operations to be monitored and reviewed by FONDESIF semi-annually as long as its loans are outstanding.

9. Through implementation of the popular participation law during 1995, the funding and responsibility for local education, health and other basic infrastructure projects has continued to be shifted to some 300 municipalities. A decentralization law that has been in effect since January 1996 broadens the role of departmental administrations and specifies the sharing of financial resources and responsibilities for providing public services among the departments and the Central Government.

10. Transfer of the decision-making authority, responsibility for the provision of public services, and revenue to the municipalities and departments is intended to make the implementation of policies for poverty alleviation more effective. As a part of the education reform the Government has accomplished its first-year objectives in institutional strengthening and rationalization (including a reduction of administrative staff by some 900), in training pedagogical advisors, and purchasing reading and reference books.

11. In the area of customs reform, the operation of six customs warehouses was awarded to a private company last August, and all customs personnel had passed professional exams by October 1995. Regulations pertaining to environmental standards and workers health and safety standards for new investment projects were issued in December 1995.

III. Objectives and Policies for 1996 to 1998

12. The Government remains fully committed to the medium-term strategy set out in the Policy Framework Paper of November 1994. The program for 1996-98 aims to raise the rate of GDP growth to about 6 percent in 1997-98, reduce inflation to 5 percent by 1998, and continue progress toward viability of the balance of payments. Lifting the rates of domestic savings and private investment remain the main challenges in pursuing sustainable higher growth rates. Implementation of programs to improve social services and infrastructure and to develop human capital will be intensified to achieve a reduction of poverty during the program period.

13. The program envisages an increase in domestic investment from 14 1/2 percent of GDP in 1995 to 18 1/2 percent of GDP in 1998, with the

share of private investment rising from about 40 percent to 60 percent during this period. Some 60 percent of the projected rise in private investment during 1996-98 would result from a strong increase in foreign direct investment associated with the capitalization program. National savings (including official transfers) are projected to rise from 8 1/2 percent of GDP in 1995 to 10 percent of GDP in 1998 notwithstanding a decline in official transfers by 1/2 percentage point of GDP during the period. Owing to capitalization, both public investment and savings will be transferred to the private sector during 1996. The pension reform also is expected to result in a transfer of savings from the public to the private sector during a transition period. As a result, the share of the private sector in domestic savings is projected to increase from one third in 1995 to one half in 1998.

14. The Government remains committed to sound fiscal and monetary policies that will consolidate macroeconomic stability and continue to improve the environment for private investment and export led growth. The Government attaches high priority to bringing down inflation. In the event that the one-time factors affecting inflation are not reversed as quickly as anticipated during 1996, fiscal policy will be strengthened. In 1996 the Government intends to capitalize the state petroleum company, YPFB, and the state smelter company, EMV; to start implementing the pension reform; to accelerate the education reform; and to complete the sale or liquidation of smaller public enterprises that belonged to the regional development corporations.

Macroeconomic policies

a. Fiscal policy

15. The Government is committed to maintaining Bolivia's public finances on a sound basis by improving the efficiency of revenue collection and the quality of public expenditures. The overall deficit of the combined public sector (after grants) is projected at 2.6 percent of GDP a year in 1996 and 1997 and 2.4 percent of GDP in 1998. These deficits are expected to be covered by external financing, nearly all on concessional terms.

(1) Revenue policies

16. To strengthen the revenue contribution of the hydrocarbons sector from 5.9 percent of GDP in 1995 to 6.3 percent of GDP a year in 1996-97, excise taxes on petroleum products were raised in January 1996, resulting in an increase in retail prices for these products by a weighted average of 16 percent. The excise taxes are projected to yield revenue equivalent to 2.6 percent of GDP in 1996, more than offsetting the expected loss in hydrocarbons royalties (2.3 percent of GDP). The new hydrocarbons law currently under discussion by Congress specifies, inter alia, the tax regime for the sector after capitalization. The main elements of the new tax regime are: (i) a 35 percent national royalty on production from existing oil and gas fields (old hydrocarbons); (ii) a 3 percent national royalty on

all oil and gas production (old and new); and (iii) a 12 percent royalty earmarked for local governments on old and new output. Producers of oil and gas will also be subject to the general tax regime (corporate income tax, tax on profit remittances, the transactions tax, and VAT), and an additional 25 percent surtax on income. The corporate income tax, tax on remittances, and income surtax will be creditable against half of the national royalty on old hydrocarbons.

17. Revenues will be increased in 1996 by the reinstatement of mining royalties, expected to yield 0.2 percent of GDP. The Government will monitor all aspects of changes in the tax structure and the tax effort resulting from the shift of the major public enterprises to the private sector, and will implement changes if needed to increase tax revenue to achieve its fiscal targets.

18. Steps to improve tax and customs administration will be intensified during 1996. A unit at the internal revenue office will be assigned to monitor hydrocarbons revenues, and the control of large taxpayers will be strengthened by the establishment of a unit at the national level to administer collections from the largest 500 taxpayers accounting for 75 percent of revenue. Also, separate large taxpayer units will be created in three additional regions. To improve the efficiency of customs administration, the Government will submit to Congress by August 1996 comprehensive customs legislation, which will clarify the responsibilities of each part of the tax administration and allow a better coordination of information on taxpayers by internal revenue officers and customs officials. In addition, the first steps will be taken to provide electronic connection of the main customs posts in the country.

(2) Public expenditure policy

19. Consistent with the reduced role of the state following the capitalization of the major public enterprises, the Government intends to reduce both current and capital expenditure in the medium term. As part of its efforts to improve the efficiency of public expenditure, expenditures in higher education will be limited to allow for an increase in outlays for primary and secondary education and health, and for improvement in the supply of public services in rural areas. World Bank staff will conduct a comprehensive public expenditure review in 1996.

20. Current expenditure of the general government is projected to decline from 22 percent of GDP in 1995 to about 20 percent of GDP in 1998. As a general policy, the Government plans to reduce the wage bill in relation to GDP. A selected group of about 300 civil servants a year representing less than 1/2 percent of government employment will receive a one-time upward wage adjustment as part of an ongoing civil service reform program designed with the assistance of the World Bank. Steps will be taken to prevent overruns in the public sector wage bill, including improvements in payroll administration that will be implemented by June 1996.

21. Public sector capital expenditure is projected to decline from about 9 percent of GDP in 1995 to about 8 percent of GDP in 1998, as investment by the public enterprises that have been capitalized will shift to the private sector. The emphasis of the public sector investment program will continue to shift towards economic infrastructure and the social sectors, with the share of these sectors in public investment increasing from 78 percent in 1995 to about 85 percent in 1998. It is expected that the transportation sector (mainly roads for export corridors and feeder roads) will represent about 35 percent of the total investment program, while the social sectors will absorb 50 percent of public investment, of which some 20 percent will be for health and education and about 30 percent for water supply, sanitation, and nonhousing urban development. The World Bank staff has reviewed the Government's public investment program for 1996 and has found it consistent with the program objectives. Projects are generally in line with the envisioned new role of the state, and indicate further reallocation of funds toward investment in basic infrastructure (about 40 percent of the total) and social sectors (about 37 percent of the total). The public investment program for 1997-98 will be assessed on an annual basis. To improve the efficiency of capital expenditure, in 1996 the Government will develop and implement procedures to monitor and evaluate public investment projects of the departmental administrations and the municipalities.

22. The Government will strengthen the monitoring and control of expenditures by local governments. A special unit will be created in the Ministry of Finance to ensure, in coordination with the Senate, that the funds allocated to local governments through revenue sharing are spent on schools, roads, and other infrastructure consistent with the national plan set in the budget.

b. Monetary and credit policies

23. The credit program of the Central Bank will continue to be based on an increase in currency in line with the inflation objectives of the program and the targeted increases in net international reserves. The program for 1996 incorporates the impact of operations by the Central Bank and FONDESIF to help restructure and strengthen the capital base of several commercial banks. Along with the restoration of confidence in the banking system, broad money is projected to increase slightly faster than nominal GDP in 1996. With the fiscal deficit limited to what can be financed from abroad, there will be room for adequate real growth of credit to the private sector, while improved efficiency and continued strengthening of banks would contribute to a gradual decline in the spread between domestic and foreign interest rates.

24. Open market operations will continue to be the main instrument of monetary policy. The Central Bank will continue to develop the secondary market in treasury bills, so that over time these replace central bank certificates of deposit for the purposes of open market operations.

c. External sector policies and prospects

25. The Government will continue to pursue policies to promote growth of traditional exports (hydrocarbons and mining exports) and boost non-traditional exports, particularly through the expansion and improvement of the export corridors road network and by expanding markets in Latin America through greater regional integration.

26. Bolivia maintains a unified exchange system in which the exchange rate is determined in daily auctions conducted by the Central Bank. This system has provided flexibility and facilitated adjustment to external shocks, and the Government intends to maintain the present system. The continued pursuit of prudent financial policies and an open trade system will be central elements of the strategy to maintain international competitiveness while scaling down inflation.

27. The Government will maintain the trade and payments system free of restrictions and will continue to seek greater regional trade integration. Following the multilateralization and deepening of existing bilateral agreements with Mercosur member countries agreed in December 1995, the Government will seek to complete negotiations to establish a free trade zone with Mercosur countries by the end of 1996. The tariff system will be maintained, with a uniform tariff of 5 percent on capital goods imports and 10 percent on all other imports.

28. The Government's debt management policy will focus on securing concessional foreign assistance in order to alleviate the heavy debt-service burden. The Government is committed to implement the agreement reached with Paris Club creditors in December 1995 for a reduction and reorganization of its external debt on Naples terms (described further in paragraph 57). The Government is committed to maintaining good relations with its creditors and will not incur new arrears.

Structural reforms

a. Public sector reforms

(1) The capitalization and privatization programs

29. The Government will capitalize YPFB by June 1996 and EMV by September 1996. In this regard it will to the extent possible, continue to transfer debt and labor liabilities of the enterprises to the shareholders. Investors will continue to be selected through a transparent international competitive bidding process. During 1996 the Government also intends to complete the process of privatizing or liquidating the small- and medium-size public enterprises that belonged to the regional development corporations.

(2) Pension reform

30. The Government remains committed to the pension reform described in the Policy Framework Paper of November 1994. By October 1996, the Government intends to complete the restructuring of the existing Basic Pension Fund (FOPEBA). Also, the Government intends to secure passage of the enabling pension law and associated regulations by December 1996. The establishment and staffing of the supervisory institution will take place by December 1996 and it is expected that private pension fund administrators will be operating and managing pension assets of Bolivian workers by March 1997.

(3) The link between capitalization and the pension reform

31. The capitalization program and the pension reform will be closely linked. The Bolivian shares of the capitalized enterprises are temporarily being placed in custody of a fund managed by Cititrust until private pension funds are created. The distribution of shares to individual retirement accounts managed by a few pension funds will be completed in the first half of 1997, after the public enterprises have been capitalized.

(4) Popular participation and administrative decentralization

32. The Government will continue to implement the popular participation and decentralization programs by assisting the consolidation of autonomous municipal governments, including by completing the establishment and integration of grass-root groups into the political process. The Government also intends to strengthen the administrative capacity of the municipalities by providing training in accounting, budgeting, expenditure control, and tax administration. Departmental councils are being established to supervise budget execution and regional investment plans.

(5) Governance and public accountability

33. The Government will continue to implement institutional reforms that seek to reduce the role of the state and to improve its efficiency, including continued implementation of the civil service reform program. To establish an appropriate regulatory framework, the Government will staff the superintendency for transport and that for water, sanitation and irrigation by July 1996; and the superintendency for hydrocarbons by September 1996. Also, the Government intends to seek passage of a law on arbitration, conciliation and mediation by December 1996, which will serve as the basis for a program to improve the handling of judicial dispute resolution. To remove the prevailing legal constraints with regard to the use of collateral, the Government will seek passage of a secured transactions law by December 1996. Based on the results of studies to be completed by end-1996, the Government will undertake a program to improve the commercial and property registries.

34. The Government is committed to ensure that the judiciary expedite the resolution of disputes arising from commercial and financial operations and ensure that judicial rulings are consistent and transparent. To achieve this, an initial group of 30 leading judges will be trained in the application of these policies during 1996 and the training of all judges will be completed by end-1997. Systematic evaluation of judges' performance will continue in 1996. By end-1996 a full-fledged career system will be implemented.

b. Financial sector reforms

(1) Implementation of Central Bank Law

35. The Central Bank Law approved in October 1995 defines more clearly the central bank mandate to regulate the operations of the financial system, except for prudential regulations, which remain the purview of the Superintendency of Banks and other Financial Institutions (Superintendency). The regulations on bank reserves, gradual elimination of related-party bank credits, central bank liquidity credits, and minimum conditions for the opening and functioning of financial intermediaries, will be revised during 1996 to improve the effectiveness of central bank policies in light of the new Law.

36. The new nonbank financial intermediary, NAFIBO, will begin operations in May 1996, taking over from the Central Bank the on-lending of the development funds to commercial banks. Projected operations of NAFIBO have been incorporated in the financial program for 1996. NAFIBO has been constituted in accordance with the private sector commercial code and its operations will be subject to prudential controls of the Superintendency. The Government intends to start offering shares in this corporation for sale to the private sector by May 1997, and over a period of five years the Government will either sell the majority of shares to the private sector or terminate its financial participation in the corporation.

37. The passage of the Central Bank Law also facilitates the completion of the Bank's restructuring. In the first half of 1996 the new Board of Directors will approve the statutes, and adopt a manual on administrative organization and other internal regulations. In addition to the removal of most of the Development Department, the administration of four cultural institutions will be removed from the Central Bank during 1996, which will result in an additional reduction of the central bank staff by 16 percent during the year. Central Bank personnel will thus have been reduced from about 740 at the beginning of 1994 to about 480 at the end of 1996.

(2) Policies to strengthen banks

38. The credit program for 1996 incorporates the operations of the Central Bank and FONDESIF to capitalize and restructure four private commercial banks that experienced problems during 1995, and limited additional funds to help strengthen other banks as needed. Total support to the

banking system during 1996 is estimated at about US$200 million, of which direct central bank support is estimated at US$110 million. Support from FONDESIF would amount to US$90 million, of which the Central Bank would provide an additional US$40 million and the rest of the financing would come from loans from multilateral institutions. Direct central bank support will be provided in the form of purchase of nonperforming assets of banks, and some liquidity support would be continued. Most of the central bank support will be immediately sterilized as the banks will have to use the funds to repay central bank emergency (liquidity) credits and reconstitute legal reserves. The Treasury will bear the ultimate responsibility for the repayment of financing to FONDESIF, including the loans from the Central Bank.

39. The banking system will continue to be strengthened over the next three years as banks comply with the requirements of the new Central Bank Law to raise the capital to assets ratio from 8 to 10 percent; to apply Basel standards for valuation of bank assets; and to eliminate lending to related parties. During the first half of 1996 the Central Bank and Superintendency of banks will issue regulations on gradual adjustment to these requirements.

(3) Development of the capital market

40. The new securities market law and a revision of the law on insurance and reinsurance will be submitted to Congress by December 1996. The objectives and content of the legislation are described in the PFP of November 1994.

c. Sectoral policies to accelerate economic growth

(1) Agriculture and rural development

41. Land tenure systems and inadequate infrastructure constrain agricultural production and exports. To improve the land tenure and titling systems, the Government intends to: (a) implement a new land administration system, including securing passage of laws establishing the National Agrarian Reform Institute and the Legal Cadastre Registry by April 1996; and (b) secure passage of a new Land Law by January 1997. The Government has formulated a rural community development strategy to reduce rural poverty. Elements of the strategy include: (a) improvement in access to and quality of social services, particularly education; (b) technological modernization of the agricultural sector; (c) sustainable management of natural resources; and (d) improvement in rural infrastructure, particularly roads, water, and basic sanitation.

(2) Hydrocarbons

42. The Government remains committed to a major reform of the hydrocarbons sector. To this end, the Government intends to secure passage of a new hydrocarbons law that was submitted to Congress in February 1996, that

contains the key elements described in the PFP of November 1994. A priority in the development strategy for the sector is the expansion of export markets for natural gas. In this regard, the Government is seeking to secure the extension of the contract for gas exports to Argentina. The Government will continue to promote investment in a gas pipeline to Brazil, with the intention of having the private sector play the key role in financing, constructing and operating this pipeline.

(3) Mining

43. The Government will limit COMIBOL's role to the management of state properties and of lease contracts with private operators. To increase the attractiveness of mining to long-term investors, the Government will seek to secure the approval of a new mining code by December 1996. The new code will provide for mining leases of more than ten years and will harmonize tax provisions with international tax practices. In addition, the Government intends to carry out the mining cadastre and to centralize geological and mining services.

(4) Infrastructure

44. Transport sector. The Government will finalize its strategy for improving the efficiency of the transport sector by December 1996. The objectives of this strategy were described in the PFP of November 1994. Following the decentralization of responsibility for the secondary and tertiary road networks, the capacity of the departments in road management will need to be strengthened, while the role of the National Road Service (SENAC) will be limited to the completion of the ongoing externally financed projects. The National Secretariat for Transportation will be responsible for the planning and coordination of maintenance and expansion of the national (trunk) network.

45. The Government will regulate the railway system to ensure safe operations and to prevent monopoly and discriminatory practices. Following the capitalization of the railway company, the Government is gradually reducing the existing transfers for freight to the railway company and will eliminate them by January 1997. However, to assure the provision of passenger services to remote areas, the Government may provide limited subsidies. In aviation, the Government will finalize the restructuring of the public enterprise in charge of airport services (AASANA) by end 1996.

46. Other Infrastructure. The Government's objective in the electricity sector is to increase the level of services to rural consumers by allocating public resources to transmission and seeking private sector participation. In electricity and telecommunications, the Government will continue to strengthen the institutional and legal framework to enforce regulations.

d. Development of human resources, social services, and poverty alleviation

47. The Government's social sector strategy is a key element of the economic policy program, and is centered on the development of human capital to alleviate poverty and increase the capacity for sustained economic growth.

(1) Education

48. The Government will continue implementing the education reform program, including the new organizational structure with administrative decentralization and mechanisms to ensure community participation. Furthermore, the Government intends to increase the budget allocation to primary and secondary education from 13 percent of central government expenditure in 1995 to 13 1/2 percent in 1996, 14 percent in 1997 and 15 percent in 1998; and establish a plan to eliminate gradually transfers to the universities by the Treasury. The Government will adhere to clear and objective technical criteria for the promotion of all staff in the system and will continue to provide in-service training.

(2) Health, water, and sanitation

49. The Government is committed to improving primary health care services (including especially maternal and child health programs and coverage of the rural areas) through a more decentralized and efficient delivery system. To achieve these objectives, the Government intends to: (a) develop and initiate a reform of the health care system during 1996; and, (b) increase the share of health expenditures devoted to primary health care, based on an indicator to measure this share that will be developed during 1996. The Government also will continue implementing its national water and sanitation program, including the Rural Water and Sanitation Program (PROSABAR).

(3) Poverty reduction and safety net programs

50. The Government intends to reduce poverty by raising the rate of economic growth and implementing targeted programs to improve the coverage and quality of basic education and basic health care. Also, the plan to distribute 50 percent of the shares of the capitalized enterprises on an equal basis to Bolivian adult citizens will help assure that the benefits of economic growth are shared throughout the population and help raise income for retirees. To improve income opportunities for the poor, the Government will accelerate the land reform (including a new law strengthening property rights for small farmers).

51. The Government will intensify its efforts to develop quality indicators for social expenditure and introduce an information system to facilitate monitoring and improvement of its social programs during 1996.

The Government will continue to implement its targeted programs, including projects financed through the Social Investment Fund (FIS), the Mother-Child Health Care Program, the Food and Nutritional Vigilance Program (PROVIAN), the Integrated Child Development Program (PIDI), and the programs for the development of indigenous people.

(4) Sustainable development and the environment

52. The Government remains committed to improving the management of the country's natural resources and preserving the environment. During the first half of 1996 the Government will implement the recently approved regulations of the Environmental Law. To improve the management of forests and national parks, the Government will seek passage of a forestry law and a biodiversity law by December 1996. Based on the completed analysis of the four most important hydrobasins, the Government will develop and implement a strategy to ensure the provision of high quality water and its rational use. The Government will seek passage of a water law by July 1997. The Government will continue to implement the National System of Protected Areas.

e. Technical assistance requirements

53. Technical assistance provides an important contribution to the formulation and implementation of the Government's structural reform program. In 1996, the requirements of technical assistance will be concentrated in the areas of: (i) the development and implementation of policies and programs in social sectors; (ii) strengthening of public institutions; (iii) the public finances; and (iv) the financial system. Increased importance will be attached to the development and implementation of programs benefiting the poor, and to environmental projects and programs. A list of identified (ongoing, committed and proposed) technical assistance and plans in the macroeconomic and social areas is attached. The Government is committed to continuing efforts to raise the effectiveness of technical assistance by ensuring that the priorities are well defined and that adequate local staff and other resources are allocated to the counterpart work, follow-up and implementation.

IV. External Financing Requirements and External Debt Policies

54. Implementation of the economic and social program described in this paper will require substantial inflows of concessional assistance in 1996-98 to supplement the domestic savings effort and private capital inflows. This external support is essential for Bolivia to achieve sufficient real growth and structural reforms to provide for a substantial reduction in poverty.

55. Estimates of the external financing requirements have been made on the assumption that the volume of exports will grow by about 6 percent a year over the period 1996-98, led by strong growth of nontraditional exports. The volume of imports would rise sharply in 1996 and 1997

reflecting imports of intermediate and capital goods linked to capitalization, and the current account deficit (excluding official transfers) is expected to average some US$790 million a year during 1996-98 (Table 2). Taking into account scheduled external debt-service payments, the gross external financing requirement would average about US$1,035 million a year in 1996-98.

56. The external financing requirement is expected to be met by projected disbursements of official grants and long-term loans of about US$515 million a year in the period 1996-98, one third of which would be in the form of official grants mostly from bilateral sources. Disbursements from the Inter-American Development Bank are projected at about US$155 million a year during 1996-98 and those from the World Bank are projected at about US$95 million a year. The second and third annual arrangements under the ESAF would provide financing of about US$52 million a year in 1996-97. Under current assumptions, and taking into account scheduled amortization, Fund repurchases and repayments, and net flows of private capital (which are projected to increase owing to the capitalization program), the current account deficits are projected to be financed without additional need for debt relief during the program period. In the case that private capital inflows do not fully materialize as projected, imports would be correspondingly lower and no financing gaps are expected to emerge.

57. The debt- and debt-service projections (Table 3) incorporate the terms of the stock-of-debt reduction and restructuring under Naples terms agreed with Paris Club creditors in December 1995. This operation provided for a 67 percent reduction in net present value terms of eligible debt to Paris Club creditors at end-1995, amounting to about US$980 million. Bolivia's external public debt is estimated at US$4.8 billion at end-1995. In present value terms, the debt is estimated at US$2.8 billion, equivalent to about 46 percent of GDP and 210 percent of exports of goods and services.

58. The public sector debt burden is expected to decline from 79 percent of GDP at end-1995 to 69 percent by 1998. The debt-service ratio would decline from 41 percent of exports in 1995 to 27 percent in 1996 and 23 percent by 1998. On the assumption that the ratio of government revenue to GDP remains unchanged at its current level of 25 percent, the ratio of external debt service to government revenue would decline from 33 percent in 1995 to 20 percent in 1998.

Table 1. Bolivia: Selected Economic and Financial Indicators

	1992	1993	1994	Prel. 1995	Projections 1996	1997	1998
(Annual percentage change, unless otherwise stated)							
Income and prices							
Real GDP	2.8	4.1	4.2	3.8	5.0	5.8	5.8
Real GDP per capita	0.7	2.0	2.1	1.7	2.8	3.6	3.6
Real consumption per capita	4.1	1.4	-2.0	2.1	3.9	3.0	2.9
GDP deflator	11.5	7.6	6.9	9.6	10.0	6.2	5.1
Consumer prices (end of period)	10.5	9.3	8.5	12.6	8.0	6.0	5.0
Consumer prices (period average)	12.1	8.5	7.9	10.2	11.8	6.3	5.4
External sector							
(in terms of U.S. dollars)							
Merchandise exports (f.o.b.)	-17.9	11.3	36.7	7.4	7.6	8.3	8.1
Nonhydrocarbons	-4.5	19.9	42.2	3.3	9.4	8.9	8.5
Merchandise imports (c.i.f.)	12.5	10.6	6.1	10.9	17.4	12.2	4.3
Export volume	-6.0	10.6	27.1	4.9	6.6	6.4	6.4
Import volume	7.0	9.8	2.1	3.8	15.9	11.3	3.3
Terms of trade (deterioration -)	-16.9	--	3.5	-3.9	1.1	1.6	1.0
Real effective exchange rate (depreciation -)							
End of period	-2.4	-2.6	-10.1	4.1 1/	...	...	...
Period average	-2.5	-3.5	-7.9	-3.6 1/	...	...	...
Combined public sector 2/							
Revenue and grants	17.9	5.7	24.4	18.3	10.3	6.1	11.5
Total expenditure	17.4	13.5	10.2	15.1	11.4	7.3	9.2
Money and credit							
Net domestic assets 3/4/	28.3	26.7	15.4	2.2	9.0	10.5	10.3
Liabilities to private sector (M3) 3/4/	27.8	26.7	16.8	5.2	10.5	11.2	11.2
Interest rates (percent per annum end of period)							
Yield on CDs in local currency	22.4	18.4	19.4	24.7	...	...	...
Yield on CDs in U.S. dollars	7.6	6.9	7.1	14.1	...	...	...
Liabilities to private sector (M3) 4/5/	37.2	36.4	21.6	9.4	15.5	15.5	14.2
Liabilities in bolivianos (M2) 6/	13.9	14.0	37.1	17.9	16.1	16.6	13.7
U.S. dollar-denominated deposits 5/	44.2	41.8	18.7	7.5	15.3	16.4	14.3
(In percent of GDP)							
Combined public sector							
Savings before grants	3.1	1.5	3.6	4.4	2.9	3.0	3.6
Overall deficit	-4.7	-6.5	-3.2	-2.0	-2.6	-2.6	-2.4
Nonfinancial public sector deficit 2/	-4.5	-6.8	-4.0	-2.9	-3.1	-2.9	-2.6
Central bank losses (-)	-0.2	0.4	0.7	0.9	0.5	0.3	0.2
Investment and savings							
Gross domestic investment	14.7	14.1	14.1	14.4	16.9	19.0	18.4
Combined public sector 7/	9.7	8.8	8.8	8.2	7.2	7.1	7.0
Private sector	5.0	5.3	5.3	6.2	9.7	11.9	11.4
Gross national savings	6.9	5.3	10.1	8.4	8.0	9.3	9.7
Combined public sector 2/7/	4.9	2.2	5.3	5.4	4.2	4.0	4.5
Private sector	2.0	3.1	4.8	3.0	3.8	5.3	5.2
External current account deficit 8/	7.8	8.8	4.0	6.1	8.9	9.7	8.7
(before official transfers)	12.1	12.8	8.6	9.4	11.4	11.8	10.7
Public sector external debt 9/	76.8	76.0	85.6	79.4	75.2	73.0	69.4
Debt service due 10/	54.4	48.6	35.0	40.8	26.8	23.9	23.1
Debt service paid 10/	31.1	33.0	24.8	26.3	26.8	23.9	23.1
Banking system liabilities to private sector	34.9	43.0	46.3	44.6	45.1	45.4	46.6
(In millions of U.S. dollars)							
Change in net official reserves	30.5	138.8	123.3	115.3	60.0	50.0	44.0
Gross official reserves (months of imports)	4.3	4.8	5.9	5.7	5.9	5.9	5.6
Public sector external debt							
(in billions of U.S. dollars)	4.0	4.1	4.7	4.8	4.9	5.1	5.2

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

1/ Change over 12 months ending in December.
2/ Gas export revenues and interest outlays on a payments-due basis.
3/ Changes in percent of liabilities to private sector at beginning of year, at accounting exchange rates.
4/ Since December 1994, M3 includes special certificates of deposit held by the depositors of the two banks closed in November 1994, and credit to the private sector includes that of the banks in liquidation.
5/ Percentage change; deposits valued at end-period exchange rates.
6/ Currency in circulation plus local currency deposits.
7/ Based on national accounts estimates. Data that appear in the fiscal accounts as capital expenditure overestimate fixed capital formation.
8/ Excludes grants to finance debt-reduction operations.
9/ Includes obligations to the Fund and debt with public guarantees.
10/ On public sector medium- and long-term external debt, including payments to the Fund, in percent of exports of goods and services.

Table 2. Bolivia: External Financing Requirements 1992-98

(In millions of U.S. dollars)

	1992	1993	1994	Projections 1995	1996	1997	1998
Total financing requirements	975.8	1,045.2	883.2	1005.1	1,009.1	1,083.9	1,008.9
Current account deficit							
(excluding official transfers)	634.7	688.1	476.0	568.7	744.3	826.1	801.3
Public debt amortization due 1/	233.0	229.0	234.9	295.1	152.4	155.2	163.6
Debt reduction 2/	26.0	--	---	--	--	--	--
Net change in arrears 3/	0.4	-10.7	5.6	--	--	--	--
IMF repurchases	37.0	29.6	14.9	26.6	33.9	38.9	46.8
Change in gross official reserves	44.6	109.2	151.8	114.7	78.5	63.7	-2.8
Total identified financing	803.3	905.4	765.1	820.5	1,009.1	1,083.9	1,008.9
Official grants 4/	251.5	216.6	257.5	204.1	164.6	150.0	150.0
Long-term loan disbursements 5/	380.6	315.1	359.9	374.2	407.3	344.5	331.4
Multilateral	246.8	229.1	302.0	338.1	354.2	304.6	293.2
Of which: IBRD/IDA	55.4	65.9	79.2	113.5	99.5	93.0	85.0
IDB	162.5	119.3	136.4	134.4	154.0	158.0	151.7
Bilateral	133.8	86.0	57.9	36.2	53.1	39.9	38.3
IMF 6/	51.2	--	43.4	26.0	52.4	52.6	--
Overdue gas receipts	7.7	29.6	--	--	--	--	--
Other capital (net) 7/	112.3	344.1	104.3	216.1	384.8	536.9	527.5
Debt relief	172.5	139.8	118.1	184.7	--	--	--

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

1/ Includes debt amortization due by capitalized enterprises. Incorporates the terms of the Paris Club agreement of December 1995.
2/ Corresponds to commercial bank debt reduction operation.
3/ Excludes arrears to foreign commercial banks and overdue gas receipts.
4/ Includes grants for debt reduction.
5/ Disbursements to the public sector from official creditors.
6/ Disbursements under the ESAF.
7/ Direct foreign investment, short-term capital, errors and omissions, and special payments by Argentina.

Table 3. Bolivia: Medium-Term External Debt Service Schedule - Public Sector

	Stock at End-1995	Prel. 1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
					(In millions of U.S. dollars)							
Debt service due 1/		518	363	351	364	372	388	401	411	413	398	385
Principal	4,783	322	186	194	210	220	238	255	267	272	260	248
Multilateral	2,937	144	166	183	186	175	169	160	157	144	127	111
IMF	278	27	34	39	47	38	35	36	36	36	34	27
Other	2,659	117	132	144	140	137	134	124	121	108	92	85
Official bilateral	1,812	175	17	9	16	25	31	45	48	51	49	49
Paris Club	1,751	133	13	6	12	21	27	40	42	45	47	47
Pre-cutoff date debt	1,129	123	--	--	--	2	2	10	11	11	12	13
Concessional 2/	636	11	--	--	--	2	2	10	11	11	12	13
Nonconcessional	492	113	--	--	--	--	--	--	--	--	--	--
Post-cutoff date debt	622	10	13	6	12	19	25	30	31	33	35	33
Non-Paris Club 3/	66	42	3	3	4	5	5	5	5	6	2	2
Other 4/	33	3	4	1	1	1	1	--	--	--	--	--
New debt		--	--	--	6	19	37	50	62	77	84	88
New disbursements		--	--	--	6	19	37	50	62	77	84	88
Interest		196	177	157	154	151	149	146	144	141	139	137
Multilateral		119	121	90	77	68	60	50	44	38	33	28
IMF		1	2	2	1	1	1	1	1	--	--	--
Other		118	119	88	76	67	59	49	43	37	32	28
Official bilateral		77	43	50	49	47	47	46	44	43	41	40
Paris Club		77	43	49	49	47	46	45	44	42	41	40
Pre-cutoff date debt		59	32	32	32	32	32	31	31	30	30	29
Concessional 2/		33	32	32	32	32	32	31	31	30	30	29
Nonconcessional		26	--	--	--	--	--	--	--	--	--	--
Post-cutoff date debt		18	11	17	17	15	15	14	13	12	11	11
Non-Paris Club 3/		--	--	1	1	1	1	--	--	--	--	--
Other 4/		1	--	--	--	--	--	--	--	--	--	--
New Debt		--	13	17	27	36	43	50	56	61	65	70
New disbursements		--	13	17	27	36	43	50	56	61	65	70
Debt service paid 5/		333	363	351	364	372	388	401	411	413	398	385
Principal		176	186	194	210	220	238	255	267	272	260	248
Interest		157	177	157	154	151	149	146	144	141	139	137
Arrears		--	--	--	--	--	--	--	--	--	--	--
					(In percent of exports of goods and services)							
Debt outstanding		376.7	361.5	347.6	330.6	313.2	294.6	278.3	262.0	245.7	230.4	216.4
Debt service due 1/		40.8	26.8	23.9	23.1	21.9	21.2	20.5	19.7	18.5	16.7	15.1
Of which: multilaterals		20.7	21.5	19.5	18.5	16.9	15.7	14.3	13.5	12.5	11.1	9.9
Debt service paid 5/		26.3	26.8	23.9	23.1	21.9	21.2	20.5	19.7	18.5	16.7	15.1
					(In percent of GDP)							
Debt outstanding		79.4	75.2	73.0	69.4	66.4	63.3	60.0	56.6	53.3	50.2	47.4
Of which: multilaterals		48.8	48.7	47.9	45.7	44.1	42.5	40.8	39.0	37.2	35.6	34.1
Debt service due 1/		8.6	5.6	5.0	4.8	4.6	4.6	4.4	4.3	4.0	3.6	3.3
Of which: multilaterals		4.4	4.5	4.1	3.9	3.6	3.4	3.1	2.9	2.7	2.4	2.2
Debt service paid 5/		5.5	5.6	5.0	4.8	4.6	4.6	4.4	4.3	4.0	3.6	3.3
					(In millions of U.S. dollars)							
Memorandum item												
Total debt outstanding 6/		4,783	4,907	5,110	5,213	5,315	5,390	5,437	5,464	5,477	5,494	5,522

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

1/ Debt service includes interest on short-term debt.
2/ Includes 1990, 1992 and March 1995 Paris Club reschedulings.
3/ Mainly Brazil.
4/ Includes suppliers' credits.
5/ Projections are of debt service after debt relief.
6/ Stock of medium- and long-term public and publicly guaranteed debt at the end of the period.

Bolivia: Summary and Timetable of Macroeconomic and Structural Adjustment Policies, 1995-98

Policy Measure	Program Schedule	Implementation Status February 1996
1. Public Finance and Fiscal Policy Management		
a. Revenue		
Maintain/expand revenues by replacing transfers from public enterprises by new taxation systems.		
Introduce changes to the tax system.	December 1994	Rate of transactions tax increased from 2 to 3 percent in February 1995; increase in excises on automobiles and beer became effective in August 1995.
Lift exemption of the mining sector from a 2 1/2 percent royalty.	Starting January 1996	Implemented.
Improve tax administration.		
Increase coverage of large taxpayers subject to special audit to 4,000.	December 1994	As of July, 1995, coverage was broadened from 1,700 to 2,600 large taxpayers. Further improvements will focus on administration of a subset of the largest 500 taxpayers accounting for 75 percent of revenue.
Complete reform of customs administration.		
Award management of six customs warehouses on the border to a private company.	December 1994	Awarded in August 1995; management transferred in February 1996.
Complete construction of three customs houses on the border.	April 1995	To be completed by September 1996.
Complete selection of customs personnel based on competitive exams. According to the following cumulative totals:		
120	December 1994	Implemented. All customs personnel (588) had passed the exam by October 1995.
350	December 1995	
450	June 1996	
b. Expenditure		
Minimize cost to the Treasury of the capitalization program.		
Transfer liabilities--including severance payments, transactions costs and debt obligations--as well as assets to shareholders of the new firm.	1994-96	All liabilities and assets were transferred to new owners of ENDE, ENTEL, and LAB.

Bolivia: Summary and Timetable of Macroeconomic and Structural Adjustment Policies, 1995-98 (Continued)

Policy Measure	Program Schedule	Implementation Status February 1996
Improve quality and efficiency of public investment.		
General government capital expenditures will reach 6.2 percent of GDP by 1997 and about 85 percent will be allocated to basic infrastructure and social sectors.	Annually, starting 1995	General government capital expenditure was 6.7 percent of GDP in 1995, with 67 percent allocated to basic infrastructure and social sectors.
c. Government efficiency		
Strengthen essential public institutions and improve the efficiency of resource allocation.		
Implement civil service reform program.	Starting July 1995	187 civil servants trained and placed in key public institutions.
Implement regulations for the enforcement of SAFCO law.	1994-97	Ongoing.
2. Private sector development		
a. Legal framework		
Introduce legal and regulatory framework to promote competition and private sector investment.		
Issue regulations for implementation of Capitalization Law.	December 1994	Implemented.
Establish and staff regulatory system with superintendencies for the electricity, and telecommunications sectors.	March 1995	Superintendents appointed for SIRESE, electricity, and, telecommunications sectors.
Implement SIRESE regulations.	March 1995	Regulations drafted. To be issued by March 1996.
Improve the legal and judicial frameworks to ensure transparency, predictability and enforceability of contracts and property rights.		
Passage of the Law on Administrative Procedures.	July 1995	Expected for December 1996. Minimum requirements needed for capitalization are included in SIRESE regulations.
Implementation of regulations.	August 1995	To be implemented by March 1998.
Ratification of the New York Arbitration Convention.	March 1995	Implemented.
Complete implementation of a program to improve the handling of judicial dispute resolution.	December 1997	Ongoing.
Complete improvement of system of commercial registry.	December 1997	A preparatory study to be completed by December 1996.
Passage of Secured Transactions Law.	December 1995	To be implemented by December 1996.
Implementation of regulations.	March 1996	To be implemented by March 1997.

Bolivia: Summary and Timetable of Macroeconomic and Structural Adjustment Policies, 1995-98 (Continued)

Policy Measure	Program Schedule	Implementation Status February 1996
b. Reforms to strengthen productive and export potential and develop key infrastructure.		
Promote agricultural output growth and improve farmers' productivity and income.		
Formulate a land policy and prepare related legislation.	December 1995	Land policy formulated. Legislation to be submitted to Congress by October 1996.
Create a land administration system that guarantees property rights.	July 1995	Passage of the National Land Institute Law is expected by April 1996.
Begin implementation of a land title registry.	December 1995	Passage of the law that establishes the basis for creating a unified legal cadastre is expected by April 1996.
Increase research and development to improve agricultural productivity.	1994-97	Research ongoing. Study on Agricultural Extension Services completed in October 1995. Agriculture technology program to be formulated by end-1996.
Increase output and proven reserves of hydrocarbons.		
Passage of new Hydrocarbons Law and implementation of regulations, including the deregulation of petroleum product prices.	December 1995	Hydrocarbons Law submitted to Congress in February 1996.
Capitalize YPFB.	July 1995	Expected in June 1996.
Promote development of mining sector.		
Complete implementation of long-term restructuring plan for COMIBOL, including transferring/liquidating non-mining assets.	December 1995	The restructuring plan approved and transforming/liquidating of non-mining assets expected to be completed by December 1996.
Approval of modifications to the mining code.	June 1995	Not necessary for capitalization. Government will seek approval by December 1996.
Capitalize EMV.	July 1996	Expected in September 1996.
Increase coverage and improve quality of services in telecommunications.		
Passage of new Telecommunications Law and implementation of regulations.	January 1995	Telecommunications law approved in July 1995 and regulations issued in September 1995.
Capitalize ENTEL.	July 1995	Implemented in November 1995.
Increase output and maintain quality of services in electricity.		
Passage of new Electricity Law and implementation of regulations.	January 1995	Electricity law approved in December 1994. Regulations issued in June 1995.
Capitalize ENDE.	March 1995	Implemented in July 1995.
Improve efficiency of railway services.		

Bolivia: Summary and Timetable of Macroeconomic and Structural Adjustment Policies, 1995-98 (Continued)

Policy Measure	Program Schedule	Implementation Status February 1996
Reduce transfers to the railways company.	Starting in 1996 budget	Ongoing. Has been reduced in 1996 budget.
Eliminate transfers to the railways company for transport of goods.	January 1997	Ongoing. Has been reduced in 1996 budget.
Capitalize ENFE.	December 1996	Awarded in December 1995.
Improve efficiency of domestic and international air services.		
Capitalize LAB.	July 1996	Implemented in December 1995.
Improve efficiency of the transport sector.		
Finalize the national transport strategy.	June 1995	Expected to be finalized by December 1996.
Complete restructuring of AASANA.	December 1995	Restructuring study completed in June 1995. Privatization of AASANAs 3 main airports expected by December 1996.
c. Other small- and medium-size public enterprises.		
Improve performance and efficiency.		
Sell and/or liquidate 10 public enterprises controlled by Regional Development Corporations (RDCs).	March 1995	Implemented by August 1995.
Sell and/or liquidate an additional 30 enterprises.	December 1995	As of February 1996, 20 small additional public companies had been sold/liquidated.
Complete the sale and/or liquidation of all public enterprises that belonged to RDCs.	December 1996	Ongoing.
3. Financial Sector Policies		
Improve efficiency and viability of financial system.		
Passage of Central Bank Law.	December 1994	Central Bank Law approved in October 1995.
Complete restructuring of Central Bank.	March 1995	Substantial implementation. On-lending activities to be transferred by May 1996. Cultural support activities to be transferred by December 1996.
Transfer central bank on-lending operations and loan portfolio of the Development Department to the new second-tier financial institution (NAFIBO).	May 1996	Preparations at an advanced stage.
Complete liquidation of BANEST and other public banks.	March 1995	Implemented in June 1995.
Complete programs to restructure and recapitalize four banks.	June 1996	One bank recapitalized, and programs for three others under consideration.
Improve efficiency of contractual savings system and develop capital markets.		

Bolivia: Summary and Timetable of Macroeconomic and Structural Adjustment Policies, 1995-98 (Continued)

Policy Measure	Program Schedule	Implementation Status February 1996
Passage of Securities Markets Law and implementation of regulations.	July 1995	To be presented to Congress by December 1996.
Passage of Insurance Law and implementation of regulations.	July 1995	To be presented to Congress by December 1996.
4. Social and Other Sector Policies		
a. Reforms to develop human capital and alleviate poverty.		
Improve social security benefits.		
Passage of the Pension Law and implementation of the regulations.	July 1995	Law to be presented to Congress by September 1996. Regulations to be issued by December 1996.
Establish and staff a regulatory authority to supervise compliance with the pension law and regulations.	October 1995	Expected by December 1996.
Improve delivery of public services at the community level.		
Strengthen administrative capacity of 36 municipalities, including all departmental capitals and the largest provincial capitals.	1995-97	Ongoing. Thirty-six municipalities have strengthening programs in place as of end-1995.
Improve provision of basic education.		
Issue regulations for implementation of Education Law.	March 1995	Implemented in February 1995.
Establish and implement an institutional framework.	Starting December 1994	Started in September 1995.
Establish a plan for financial restructuring.	Starting September 1994	Started in September 1995.
Increase the share of the primary and secondary education in central government expenditures to 13 percent in 1995, 13 1/2 percent in 1996, and 14 percent in 1997.	To be included in the annual budget starting in 1995	Share of primary and secondary education was increased from 9.9 percent in 1994 to 12.6 percent in 1995, and to 13.7 percent in the 1996 budget.
Improve educational quality through provision of educational materials and teacher training.	Starting December 1994	Started in July 1995. 6 1/2 million textbooks procured and 10,000 teachers tested.
Improve delivery of basic health care.		
Increase the share of health expenditures devoted to primary health to 45 percent.	To be included in 1995 budget	Indicator to be developed during 1996.
Develop plan and initiate reform of health care system.	Starting in early 1995	Planning in an early stage.
Improve access to water and sanitation.		
Implement national water and sanitation program.	1995-98	Ongoing. Water and sanitation services to 200,000 additional rural households expected to be provided by end-1998.
Implement programs to address the needs of the most vulnerable poor.	1995-97	330 infant and child care centers operating as of December 1995. 1,100 more to be opened in 1996.
Implement the Integrated Child Development Project (PIDI).		

Bolivia: Summary and Timetable of Macroeconomic and Structural Adjustment Policies, 1995-98 (Concluded)

Policy Measure	Program Schedule	Implementation Status February 1996
Develop plan and implement rural sector programs.	Starting January 1995	Started in January 1995. Ongoing.
b. Environmental reforms.		
Continue implementing national policy for sustainable development.		
Determine environmental obligations in hydrocarbons and mining sectors, particularly:		
• those associated with YPFB and EMV, and	December 1995	Preliminary audits of YPFB and EMV were conducted in 1994. Final audits of these enterprises expected by June 1996.
• those associated with COMIBOL.	July 1996	Preliminary audit of COMIBOL was conducted in 1994. Final audit expected by June 1996.
Apply environmental, worker health and safety criteria to screen new investments.	Starting July 1997	Regulations issued in December 1995.
Establish and enforce emission and discharge standards for water, air and solid waste in the mining and industrial sectors.	July 1997	Regulations issued in December 1995. Enforcement to be developed.
Improve water resource management policies and practices in priority watersheds.	Starting July 1997	Draft Water Law to be submitted to Congress by January 1997.
Implement regulations for Forestry Law.	March 1996	Passage of the Forestry Law expected by December 1996, and regulations to be issued by March 1997.
Continue implementing National System of Protected Areas, including conservation of biodiversity.	1994-97	Three areas are under protection, and another 6 will be integrated by the end of 1996.

Bolivia: Technical Assistance Programs and Requirements

	Subject	Timing	Provider	Objectives and Comments
1.	Macroeconomic Policy a. Public Finances	First half 1996	IMF	Help strengthen public sector wage administration. Help strengthen control of borrowing by local governments.
		1995-96	IDB	Help strengthen tax administration.
		Proposed	IMF	Help implement the corporate profits tax. Help strengthen expenditure control in the education and health sectors.
		1996-97	CAF	Strengthen the Ministry of Finance.
	b. Financial System	1996 to early 1997	IMF	Expert to assist in the preparation of new regulations on minimum capital requirements; the elimination of related party credits; nonbank financial institutions and new financial services.
		1996 to early 1997	IMF	Expert to help further develop the treasury bill market and other monetary instruments; and advise on reserve requirements and rediscount operations.
		Proposed	IMF	Review and recommend improvements to the exchange system.
		Proposed Late 1996 or early 1997	IMF	Follow-up on management and control of financial system liquidity.
	c. Macroeconomic Statistics	March to December 1996	IMF	Help improve methodology on employment and wage indicators; producer price indexes for agriculture, construction, and manufacturing; and consumer price index.
		Proposed	IMF	Help improve recording of private capital flows and export and import price indexes, and implement the manual of balance of payments (fifth edition).
2.	Social Policy	Early 1996 to 1998	IDB	Help develop the Social Indicators and Policy Analysis System (SIPAS). Training and institutional strengthening of the civil service.
		1996-97	NDF	Help implement the land administration reform.
		1996 to early 1997	IDB	Help develop and implement the basic services project (urban sector).
		1996 to early 1997	IDA OPEC	Help develop and implement rural water supply and sanitation projects.
		Proposed 1996	IDB	Help develop indicators to monitor performance of universities.
		Late 1996 to 1997	IDB	Help strengthen the capacity of the National Directorate of Basic Health (DINASBA) to issue standards and regulations.
		Late 1996 to 1997	IDA IDB	Assist Social Investment Fund.
		1996	IDB	Support the child/mother program and water services improvement.

Bolivia: Technical Assistance Programs and Requirements (Concluded)

Subject		Timing	Provider	Objectives and Comments
		1997	IDB	Help strengthen national child care program.
		1996	Germany, KFW	Help develop and implement potable water and rural health program.
		Ongoing to 1997	IDA	Assist in the implementation of the primary education project.
3.	<u>Capitalization</u>	1996-97	IDA IDB	Help strengthen SIRESE and the Sectoral and Pension Superintendencies.
		1997	IDA	Assist in the development and implementation of the pension system reform, especially in the financial market and legal aspects.
		1996-97	IDA	Help implement the electricity sector reform.
4.	<u>Environment</u>	1996-97	IDA NDF	Technical support for environmental protection in mining and industry.
5.	<u>Development and Implementation of Other Programs</u>	1996-97	IDB	Help develop and implement a program to promote tourism in Bolivia.
		Late 1996 to 1997	IDB	Help reform institutions in the housing sector.