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To: Members of the Executive Board

From: The Secretary

Subject: Bolivia - Enhanced Structural Adjustment Facility -
Economic Policy Framework Paper for 1991-93

Attached for consideration by the Executive Directors is the policy framework paper under the enhanced structural adjustment facility for Bolivia, which is tentatively scheduled for discussion on Friday, June 28, 1991.

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 for 1991-93

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

May 30, 1991

I. Introduction

1. The Government of Bolivia adopted a far-reaching program in 1985 to stop hyperinflation and begin removing major structural weaknesses in the economy. The public finances improved dramatically and in the three years to 1989, consumer price inflation averaged 15 percent a year, and real GDP growth was modest but steady, averaging 2 1/2 percent a year. Through a series of structural reforms, the exchange market was unified with the rate determined in central bank auctions, virtually all import restrictions were eliminated and import duties lowered, and interest rates as well as product and factor prices in the private sector were freed.

2. Since mid-1986 the Government's economic program has been supported by arrangements with the Fund, including a three-year enhanced structural adjustment facility (ESAF) arrangement approved in July 1988. It also has been supported by various sector adjustment credits and reconstruction import credits from the International Development Association (IDA). The macroeconomic and structural problems facing Bolivia and the Government's policy to address them were described in the policy framework paper (PFP) of November 21, 1986 as part of an arrangement under the structural adjustment facility. The PFP was updated in June 1988 and October 1989 in conjunction with the first and second annual ESAF arrangements. The present PFP reviews the progress with the structural adjustment program in 1990 and outlines the Government's objectives and policies for the period 1991-93.

II. Economic Performance in 1990

3. The administration of President Paz Zamora began implementing a program in August 1989 to arrest the weakening of the economic situation that had taken place since early 1989. This program was supported by the second annual arrangement under the ESAF. The situation improved rapidly in the first few months of the program with a considerable tightening of financial policies, a sharp increase in public sector prices, and an acceleration in the depreciation of the boliviano.

Also, agreement was reached with Argentina to settle bilateral debts and regularize its payments for gas imports. However, in the first half of 1990 external financing was lower than projected and the implementation of certain fiscal revenue measures contemplated in the program was delayed a few months. As a result, the targets for net international reserves and central bank credit for March and June 1990 were not attained. A revised program was designed in mid-1990 containing strengthened policies and measures with the aim of returning to the medium-term path of the original ESAF-supported program. The revised program for 1990 aimed at real GDP growth of 3 percent, a reduction in the rate of inflation to 9 percent during 1990, and an improvement in net international reserves of US\$79 million. The external current account deficit (including official transfers) was projected to rise by almost 1 percentage point to 6.7 percent of GDP in 1990, and international reserves were targeted to be equivalent to 4.4 months of imports at the end of 1990. Fiscal targets for 1990 included a reduction in the deficit of the nonfinancial public sector to 3.2 percent of GDP, compared with 5.1 percent in 1989, and an increase in public sector savings (after grants) to 5.4 percent of GDP, compared with 3.0 percent of GDP in 1990.

4. Real GDP growth in 1990 was virtually as projected (2.7 percent), and the gain in net international reserves (US\$99 million) surpassed program projections. However, price performance fell short of expectations during the second half of the year and the 12-month rate of inflation increased to 18 percent in December 1990, compared with 16 1/2 percent during 1989. Factors that contributed to this price performance were a greater than expected impact of the corrective adjustments in petroleum prices in June 1990; the expectation of further increases in petroleum product prices--associated with the crisis in the Middle East--but which did not take place until January 1991; strong demand for Bolivian goods by neighboring countries because of the appreciation of their currencies; shortages of agricultural products because of a drought; and unanticipated private capital inflows, which were only partially sterilized. The improvement in Bolivia's external accounts continued in 1990 mainly as a result of a strong increase in the volume of exports. Despite a 5 percent deterioration in Bolivia's terms of trade, the external current account deficit decreased from almost 6 percent of GDP in 1989 to about 5 percent of GDP in 1990. The boliviano depreciated in real effective terms by approximately 13 percent during 1990. Payment delays on gas imports by Argentina increased from US\$15 million at end-1989 to US\$34 million at end-1990, equivalent to 0.8 percent of GDP.

5. To attain the fiscal targets for 1990, the Government introduced revenue measures that included tax increases on transactions, beer, and on the presumptive income of enterprises, and a new tax on air travel.

Public sector revenues also were boosted by increases averaging about 23 percent in petroleum product prices in June 1990. The nonfinancial public sector deficit in 1990 is estimated at 3.3 percent of GDP, slightly above the program target. The improvement in public sector savings (after grants) from 3.0 percent of GDP in 1989 to 4.3 percent of GDP in 1990 was below the program targets because of some expenditure overruns and lower than projected external grants. The public investment program was slowed down substantially, mainly by administrative problems and by changes in investment priorities (see paragraph 17 below).

6. To help achieve the program's objectives, the Central Bank conducted open-market operations with its certificates of deposit (CDs) and slowed the expansion of development credit during the year. The process of remonetization of the economy continued and narrow and broad money increased by about 28 percent during 1990; time and savings deposits in foreign currency continued to increase sharply as high interest rates offered a substantial stimulus for this form of savings.

7. A number of important structural measures were implemented in 1990 and early 1991. Import tariffs on noncapital goods were reduced from 17 percent to 16 percent in March 1990 and to 10 percent in August; the subsidy for nontraditional exports was reduced from 10 percent to 6 percent in August 1990 and was replaced by a duty drawback system in March 1991. Congress approved a law creating the Integrated System of Financial Administration and Governmental Control, which strengthens and widens the scope of present expenditure control systems in state enterprises and decentralized agencies and provides independence to the Central Bank. Also, key laws were passed in support of the strategy of improving the environment for private sector investment. In the financial sector the Government removed all constraints on the interest rate charged by commercial banks to final borrowers of development credits, and the Central Bank instituted an auction system for the allocation of such credits, replacing a system of rationing development credit to banks at fixed interest rates.

8. Despite the progress that has been made, Bolivia still faces a number of structural, institutional, and financial problems that will need to be addressed in the period ahead. The growth of output continues to be constrained by inadequate levels of saving and investment. Private sector savings remain low despite positive real interest rates. Fixed investment has fallen short of the level needed to support a significant and sustained increase in real GDP per capita, and the need for investment in human capital has not received adequate attention. Private investment has been stifled by slow progress in restoring confidence following the instability of the first half of the 1980s, despite the stable policy environment that has been achieved over the last five years. The perception of risk has resulted in a high degree of dollarization of the banking system and in a wide margin of interest rates on U.S. dollar assets in Bolivia over corresponding international rates (LIBOR). The medium-term outlook remains highly dependent on metal prices and gas exports to Argentina. Public investment needs to

increase in real terms and improve in quality through better project selection and implementation. More generally, domestic and foreign investors' confidence needs to be nurtured through a continuation of the present financial policies (with due attention given to the objective of reducing inflation), through the implementation of the recently approved legislation pertaining to investment, and by the intensification of structural reform.

III. Objectives and Strategies for 1991-93

9. Against this background, the updated medium-term program has been designed to consolidate the gains achieved in recent years, with an emphasis on orienting macroeconomic and structural policies toward containing inflationary pressures, while intensifying structural reforms, raising savings and the level and efficiency of investment, and diversifying exports in order to create the conditions for higher GDP growth. The basic macroeconomic objectives of the program for 1991-93 are to achieve an average annual rate of growth of real GDP of at least 4 percent; reduce inflation from 18 percent in 1990 to about industrial country levels in 1993; and continue making progress toward achieving viability in the balance of payments (Table 1). A central feature of the Government's program is the development of human capital, the alleviation of poverty, and the conservation of the country's ecological balance.

10. The Government will continue to pursue a prudent fiscal policy while achieving increases in investment and other expenditures essential for sustained growth. The combined public sector deficit (including central bank losses) is projected to decrease from 3.9 percent of GDP in 1990 to 2.5 percent of GDP in 1993. In particular, the deficit of the nonfinancial public sector is projected to decrease from 3.3 percent of GDP in 1990 to 2.6 percent of GDP in 1991 and to remain at about 2 1/2 percent of GDP through 1993. Deficit reduction will be achieved through increases in fiscal revenues and cutbacks on lower-priority current expenditures. In this way, the fall in the fiscal deficit will be consistent with necessary increases in expenditures on investment, operations and maintenance. Savings of the nonfinancial public sector (before transfers) will be raised to 3.9 percent of GDP in 1991 (an increase of almost 1 1/2 percentage points of GDP from 1990) and would rise to 4.4 percent of GDP in 1993. With this level of domestic savings and with external grants averaging 2.0 percent of GDP during the program period, public investment is expected to recover substantially in 1991 and to average 8.7 percent of GDP a year during the program period, thereby providing significant support to economic activity. With net external borrowing projected at 3 percent of GDP on average, most of which is expected to be on concessional terms, there will be room for a reduction in the net indebtedness of the nonfinancial public sector with the Central Bank. If implementation of the planned project to generate electricity and sell it to Brazil begins during the program period, projections of investment and external financing will be adjusted upward significantly.

11. Monetary policy will be conducted so as to meet the liquidity requirements of the economy, consistent with the growth, inflation, and balance of payments objectives of the program. Interest rates will continue to be freely determined by market forces. It is expected that in 1991 and beyond, an appropriate stance of domestic policies will be conducive to a lowering of both nominal and real interest rates. The Central Bank will continue to maintain a unified foreign exchange market with unrestricted access. The Government will pursue cautious foreign borrowing policies.

12. The Government will continue to foster an economic climate conducive to the growth of private investment and savings. As noted, interest rates will be market determined, and wages in the private sector will continue to be determined by agreement among the parties, without government intervention; competitiveness of exports will be preserved; the recently approved legislation supportive of private investment will be implemented; and there will be no direct intervention of the Government in the determination of prices (apart from the small number of public sector prices). An increased level and efficiency of public investment is an essential component of the Government's program. Improvements in the implementation of the public investment program and the reallocation of expenditure on public investment are discussed in paragraphs 17 and 18.

13. A number of additional structural measures will be required to increase investment and improve its efficiency. These include privatizing or restructuring public enterprises and increasing the efficiency of government operations; strengthening the financial sector through new central bank and commercial banking legislation and by cessation of inefficient state bank operations; and simplifying export procedures and reforming the customs service. A summary and timeframe for the Government's macroeconomic and structural adjustment policies is attached.

IV. Economic Policies for 1991-93

Fiscal policy

14. Bolivia has been well served by the simple tax system that was introduced with the 1986 tax reform and which is based on few taxes, low rates, and few or no exemptions. To increase revenue, the Government will give priority to improving the administration of existing taxes and, in formulating tax increases that may become necessary, it will emphasize taxes with a broad tax base (such as the VAT). The tax code is being modified to make more effective the control of tax delinquency and the tax administration will continue to concentrate auditing and collection activities on medium-sized and large taxpayers. The land tax began to be implemented in late 1989. The Government will maintain prices of state enterprises under close review, giving due regard to the need for an adequate rate of return to capital in these enterprises. It is expected that prudent financial practices will result in adjustments to public sector prices approximately in line with domestic inflation.

The Government intends to maintain the prices of petroleum products at the current nominal levels in 1991, but it is prepared to increase them during 1991-93 if developments in world markets and in neighboring countries so warrant.

15. Government expenditure will be consistent with the availability of domestic and foreign resources and with the need to reduce inflationary pressures. In order to improve further public service productivity, the Government will develop a public sector management program based on a salary structure and other conditions designed to attract and maintain qualified staff. The Government's medium-term wage policy for civil servants will support the public sector management program, reflecting rewards for increased productivity.

16. Crucial for recent efforts to improve public sector financial management are the new uniform procedures for public sector accounting and auditing and internal control standards begun in 1987 and given formal legislative sanction in 1990. These new accounting and auditing standards enable the Treasury to control expenditure more effectively and make each public entity responsible for presenting reliable financial statements. During the program period the Government will extend these new uniform procedures to decentralized institutions and local governments. The Government is giving consideration to the delegation of some responsibilities to regional development corporations, municipalities, and other local authorities.

17. Implementation of the public investment program and the related slow utilization of external funds have been major problems. During the nine-month period September 1989-June 1990, investment fell short of expectations mainly because of personnel changes, lack of counterpart funds, delays in approving external loan contracts by Congress, problems with certain bidding procedures, and restructuring of priorities in public investment. Some of these problems were redressed in the second half of 1990. To address the remaining problems, in 1991 the Government will improve the ministries' capacity to formulate, implement, and monitor investment programs in their sectors; continue to strengthen the administration of disbursements; and conduct regular meetings with foreign aid representatives on the implementation of externally financed investment projects. To support these efforts the undersecretariat of public investment in the Ministry of Planning has been reorganized and strengthened. Public sector investment is programmed to average at least 8.7 percent of GDP in the period 1991-93, excluding the project to sell energy to Brazil. Meanwhile, private investment is projected to rise from less than 4 percent in 1990 to 6 percent in 1993.

18. The Government seeks to make the public investment program realistic and fully reflective of Bolivia's development priorities. The Government is giving more emphasis to investment in the social sectors, infrastructure, and technological research and development. Also, the Government is modifying a number of existing proposals for investments, looking for least-cost solutions in the area of economic and social infrastructure.

The Government plans to increase the emphasis on investments in health, education, water, and sanitation and to make room for current expenditures sufficient to ensure that investments are utilized efficiently.

Public enterprise reform

19. The Government has embarked on a comprehensive privatization program with the aim of improving the efficiency of investment and redirecting public sector efforts toward the provision of basic infrastructure and services. The Government has set up a committee assisted by a small secretariat within the Ministry of Planning to oversee the program. The Government has developed a plan of action and timetable for an initial list of enterprises to be privatized, and will issue a decree establishing the objectives and principles of the program and the procedures to be followed in implementing it (with provision for severance pay, the prohibition of new investments by companies targeted for privatization, and equal treatment of privatized and other companies), together with the enterprises that will be offered for sale. The initial list includes readily saleable enterprises (such as the Bolivian airline company) and enterprises owned by regional development corporations, which have already made considerable progress in preparing a privatization program. By July 1991 legislation to allow the sale of public assets of the enterprises to be privatized will be sent to Congress, and by October the valuation of a significant number of enterprises being readied for sale will have been completed. Substantial progress has been made with the support of a merchant bank in assessing the financial situation and assets of the airline company and in designing a strategy for its privatization. It is expected that by December 1991 the Government will offer for sale the airline company or other enterprises with assets of equivalent value. Sales will continue in 1992-93.

20. Some of the larger enterprises remaining in the public sector are expected to rely on performance contracts to ensure that management and financial performance are monitored and improved. In 1991 twelve such contracts have been or will be agreed, including the State Electricity Company, the National Railways, the National Telecommunications Company, and the Bolivian Petroleum Corporation. The Government is attempting to increase private sector participation in power generation and distribution and is finalizing negotiations with the privately owned Bolivian Power Company on new investments in additional generating capacity and in the expansion of the distribution system. Greater private sector participation in the Bolivian Petroleum Corporation and the Bolivian Mining Company are discussed below in paragraphs 35-38.

Financial sector policies

21. Despite a major restructuring of the banking system in 1985-86 to help recover from the economic instability in the first half of the 1980s, a number of difficulties still affect the sector. The unsatisfactory portfolio performance of certain banks and high administrative

costs contribute to the persistently large spreads. Provision of development loans at below-market rates until mid-1990 and losses of the public sector banks have impaired the efficiency of credit allocation.

22. The Government will seek Congress' approval of new central bank and commercial banking laws, which would provide an appropriate framework for more efficient supervision of the banking system, establish clearer guidelines for handling bank crises, and strengthen penalties for non-compliance with monetary and prudential regulations. Some of the key provisions of the central bank law include limits on lending to the Government and procedures to ensure the independence of the Board of Directors of the Central Bank in the implementation of monetary and exchange rate policies. Consistent with the objectives of phasing out public sector involvement in direct lending to the private sector and preventing further losses of the public sector banks, the Government will issue a decree by July 1991 prohibiting lending by the Agricultural Bank, the Bolivian Mining Bank, and the National Mining Exploration Fund, and establishing a plan for their liquidation or, in the case of the Bolivian Mining Bank, privatization. In addition, the Government will issue a decree to restrict significantly the functions of the Bolivian State Bank. The Government's strategy to minimize hardships to groups that benefited from public banks' subsidized credit is to reallocate funds, within its overall fiscal program, for public sector assistance to the poorest communities to provide infrastructure, social services, and technical assistance rather than subsidized credit. As part of an initiative to improve the efficiency of Bolivia's contractual savings system and of capital markets in general, the Government is further committed to undertaking a full review of the social security system.

23. Mainly as a result of the high cost of CD operations, the absorption of certain Treasury outlays, and growing administrative expenditure, cash losses of the Central Bank increased to the equivalent of US\$30 million, or 0.6 percent of GDP, in 1990. Remuneration of commercial banks' reserve requirements, which resumed in November 1990, also are contributing to these losses. The authorities intend to reduce these losses and to that end, starting in 1991, the Central Bank has increased the interest charged on public sector loans, has tightened administrative expenditures, and has begun to withdraw from activities unrelated to primary central banking functions.

24. The Government is embarked on a program to strengthen the Central Bank and to improve its efficiency in three areas. First, the Central Bank has issued directives to improve administration of the auction system and to restructure its Development Department in order to provide for better supervision of development credit. Second, in July 1991 the Central Bank will issue directives to restructure its Financial System Department with the aim of strengthening its capacity to monitor developments in the financial system, to assist distressed financial institutions, and to improve coordination with the Superintendency of Banks.

Third, the Central Bank has begun to implement procedures to auction CDs and to foster a secondary market for CDs. In addition, the Central Bank is implementing a system of liquidity forecasts to gauge the amount of CDs that should be offered in each auction.

External sector prospects and policies

25. The Government's policy is to foster the growth and diversification of exports and efficient import substitution. Total exports during the period 1991-93 are expected to rise at an annual average rate of 6.9 percent in U.S. dollar terms (5.4 percent in volume terms). Most of the growth is expected in nontraditional products, because the projection is made under the assumption of virtually unchanged gas exports and moderate growth in mining because of declining international prices in 1991 and weak prices thereafter. Imports are projected to grow about in line with GDP in value terms. The external current account (including official transfers) is projected to remain about unchanged at 5.1 percent of GDP in 1991 and to decline to about 4.6 percent in 1993.

26. Exporters currently must obtain approvals from a number of different offices to cover various registration procedures, compliance with health requirements, inspection certificates, and customs documentation. The Government now allows blanket export authorizations for perishable goods and has provided for some simplification of approvals, but considerable scope still exists for further improvements in this regard. Accordingly, the Government has requested technical assistance from international institutions for designing a system of simplified export procedures (possibly into a single-step procedure) which will be implemented by July 1991. The granting of a subsidy to nontraditional exports imposed a rapidly growing budgetary burden. This subsidy was eliminated in March 1991 and replaced by a system to reimburse Bolivian exporters for taxes paid on imported inputs.

27. Customs controls are difficult to enforce because of the long and sparsely inhabited borders and the low salaries paid to customs employees. Despite improvements in customs administration since 1986 many imports continue to evade customs. To redress this problem, under a technical assistance project supported by the UNDP, the IDB, and the Government of Spain, the Government will implement an information system in 1991 that would strengthen the monitoring of import declarations and the auditing of related tax payments. Also in 1991, the Government will invite the private sector to submit offers for the construction and administration of custom houses near the border areas.

28. The Government is committed to maintaining a system free of restrictions on payments and transfers for current or capital international transactions. The multiple currency practice that was evidenced by the payment of a subsidy to nontraditional exports upon the surrender of foreign exchange has been eliminated. Following the tariff reduction of 1990, a uniform tariff rate of 10 percent applies to all imports

except for books and printed material for which a reduced rate of 2 percent applies, and for capital goods imports for which a temporary rate of 5 percent is in effect until January 1992.

29. Bolivia reduced its overdue debt to commercial banks from US\$680 million at the end of 1987 to US\$209 million at the end of 1990 through a cash buyback in 1988 and subsequent debt-bond exchanges financed by funds donated for this purpose. It is expected that the remainder of foreign commercial bank debt will be extinguished in 1991 or early 1992 with funds donated by bilateral and multilateral sources. Bolivia will continue to pay its external obligations to Brazil falling due through 1996 under the agreement of February 1990, which allows Bolivia to cancel debt obligations to Brazil using Brazilian commercial debt purchased in the secondary market. In addition, Bolivia has requested debt reduction from the United States under the Enterprise for the Americas Initiative and is well advanced in the negotiations pertaining to the cancellation of that portion (related to the PL 480 program) that has been authorized by the U.S. Congress. To continue to improve its debt service profile, the Government will rely almost entirely on external grants and concessional external borrowing to finance the external account deficits. The Government will not enter into commitments or provide guarantees for nonconcessional medium- and long-term external loans, with the exception of a small amount of loans with an original maturity of more than one year and up to ten years and the possible financing for the Brazilian project. The Government does not intend to incur any external obligation of up to one year's maturity other than normal import credits.

Agricultural policy

30. Bolivia must overcome major obstacles if it is to realize its considerable agricultural potential. These include inadequate infrastructure, a confusing land tenure situation, low levels of investment, weak institutions, and lack of appropriate research, product development, and extension services. The Government's objective is to reactivate the growth of agricultural production for domestic and export markets, improve farmers' productivity and income, induce coca leaf crop substitution, and foster crop diversification. In order to provide a framework conducive to private sector development, the Government will continue to pursue an agricultural policy for 1991-93 that rules out direct intervention in the pricing and marketing of agricultural inputs and outputs. To ensure consistency of the Government's agricultural policy with private sector production and investment plans, the National Advisory Board on Agricultural Extension and Research recently has been established with private sector participation. In addition, the Government will improve the policies governing land use and the legal framework of land tenure, especially the administration and approval of title to land holdings, which is expected to encourage agricultural development.

31. The Ministry of Agriculture and Rural Affairs has received technical and financial support to design a reorganization program aimed at

increasing the effectiveness of its own operations and those of the regional development corporations. The Bolivian Institute of Agricultural Technology also has received technical assistance to improve its efficiency. With the prospective closure of the Agricultural Bank, qualified nonbank financial institutions will be given access to the Central Bank's development loans to relend to the private sector.

32. In order to minimize the social costs associated with the surplus production of coca leaf, the Government has adopted a strategy of crop substitution, emphasizing alternative economic development, interdiction of illegal trade, and partial eradication of coca fields. The alternative development strategy centers on a six-year program of investment totaling an estimated US\$600 million, of which part will be earmarked for alternative employment-generating activities, including road and bridge construction, irrigation works, and livestock raising. Related investments in health and education to improve the access of the rural poor to social services will be coordinated with the work of the Social Investment Fund. The Ministry of Agriculture is currently assessing, and establishing priorities of, 75 projects with external financing requirements equivalent to US\$611 million.

Industrial and energy policies, and private investment

33. New legislation pertaining to investment, mining, and the oil and gas sector is expected to improve the environment for private investment, particularly in sectors which appear to have a large potential for growth. A new investment law, approved by Congress in 1990, ensures equal treatment of domestic and foreign investors, prohibits restrictions on profit repatriation, and simplifies procedures for the registration of foreign investors. The legislative sanction of well-defined rules for private investment should provide more assurance of stability in the policy regime, thus encouraging increased investment. In 1990 Bolivia joined the Multilateral Investment Guarantee Agency and signed bilateral investment treaties with Spain, Belgium, France, and Germany. An investment treaty is currently being negotiated with the United States. A revised mining law approved by Congress in April 1991 provides for joint ventures between the Bolivian Mining Company and the private sector. It also introduces a tax regime that permits multinational enterprises to offset Bolivian taxes against their tax liabilities in home countries; taxes paid under the present royalty system are not considered income taxes and thus are not deductible. A new hydrocarbons law, approved by Congress in 1990, provides for joint ventures between the Bolivian Petroleum Corporation and private sector investors in exploration and development; expands the areas eligible for private sector exploitation; permits private oil companies to export natural gas if they find a market; and allows for private sector investment in, and management of, other petroleum industry activities and services (in particular pipeline transport). In addition, with a similar provision in the Mining Law it enables foreign oil companies to offset Bolivian taxes against their tax liabilities in home countries.

a. Manufacturing

34. The main constraints to manufacturing growth are obsolete capital equipment; difficulty of access to credit for a sector composed of mostly small, informal sector firms; weak marketing and management capabilities; inadequate infrastructure; and lack of qualified labor. The Government's strategy regarding the manufacturing sector is to promote private initiative and streamline public intervention through the elimination of loss-making public enterprises and the reorganization of the rest. Accordingly, the public sector will focus on maintaining a consistent policy framework and providing basic infrastructure and services not available through the private sector. In this regard, the Government will promote private investment in manufacturing through joint ventures with foreign investors, free-trade zones, and temporary import regimes. To improve institutional support, the Ministry of Industry, Trade, and Tourism has been reorganized, while the National Export Promotion Institute will be rehabilitated to support export investment initiatives. The Government will improve the regulatory framework, in particular legal provisions that would facilitate the registration of firms.

b. Mining

35. Government policy envisages a leading role for the private sector in developing Bolivia's mineral resources. The Government has decided to open to the private sector areas that had been reserved for state exploitation, including areas within 50 kilometers of national boundaries; to develop the Bolivar mine deposit through joint ventures with the private sector; to operate the Karachipampa lead and silver smelter through the private sector; to expand private sector participation and management to all remaining deposits of the Bolivian Mining Company, including the so-called "core" mines, which have traditionally been operated by the Company; to close unprofitable mines and subsidiary offices; and to replace the Company's corporate headquarters by a holding company mechanism.

c. Energy

36. The oil and gas sector is the largest source of foreign exchange earnings and government revenues, and in view of the country's substantial reserves this sector will continue to be important for economic development. The Bolivian Petroleum Corporation, however, is not in a position to manage extensive investments in exploration and development by itself. The Government's objectives for the hydrocarbons sector are to encourage private investment in exploration and private sector management of distribution, and to increase exports and the domestic use of natural gas.

37. The Government has signed operation agreements with a number of oil companies for the exploration of potential oil and gas deposits. Also, under the terms of an agreement whereby Bolivia settled long-standing

government arrears to foreign-owned petroleum companies, about half of the settlement of arrears is to be invested in Bolivia by December 1992.

38. While most of the primary natural gas pipeline distribution network was constructed by the Bolivian Petroleum Corporation, the secondary (intra-city) natural gas pipelines are being or will be constructed wholly by the private sector. To increase the domestic use of natural gas (thus generating a surplus of petroleum derivatives for export), seven major cities are now connected to the primary natural gas pipeline distribution network, and construction of the secondary intra-city pipelines has begun. A pilot project has been started to ship liquefied petroleum gas (LPG) to Chile. If the LPG domestic supply surplus increases, it could become a significant source of foreign exchange earnings. Negotiations with Brazil on the sale of electricity to that country have been completed and negotiations with international institutions continue for the financing of the construction of a 450 MW power plant on the border with Brazil and the related gas pipeline from the Santa Cruz gas field.

Transportation

39. Transport costs within Bolivia are high because of mountainous terrain, severe seasonal rainfall, and low population density. Transportation costs for foreign trade also are high because Bolivia is landlocked. These difficulties have been compounded by low levels of investment and neglect of existing infrastructure in the past. In redressing this, the Government will concentrate on upgrading infrastructure that serves productive areas.

40. The Government's objectives for the next few years are to reduce transport costs, particularly for international trade, by emphasizing the improvement of railway operations in the export corridors; simplifying customs, freight forwarding, and export procedures; increasing private sector involvement and competition in cargo handling, air transport, and selected railway services; and improving efficiency of road maintenance activities through decentralization and increased private contracting. The Government plans to complement these measures with a selective expansion of the highway network, in particular through the construction of roads in areas with high agricultural potential.

Social sectors and social impact

41. A central feature of the Government's medium-term strategy is the development of human capital, with the objective of ameliorating poverty and creating the necessary capacity for sustained growth. Programs for health and education are increasingly being targeted to the poorest sectors of the population. Also, many of the policies envisaged under the Government's adjustment program for the next three years would have a positive impact on income distribution by facilitating the growth of investment and employment opportunities and nontraditional exports, and by improving the availability of essential goods and services. The

reduction of coca cultivation will have adverse distributional effects in the short run in coca-growing areas, but this will be partly offset by investment in alternative income-generating activity, part of which will be directed specifically to areas of localized acute poverty.

42. The Emergency Social Fund (ESF) was established in 1985 in conjunction with the stabilization program to provide temporary employment to those displaced by the economic crisis and to bolster basic social services. The Social Investment Fund (SIF), established in early 1990 to succeed the ESF, was given a mandate to alleviate poverty and increase investment in health and education. The SIF seeks to commit about US\$40 million a year, beginning in 1991, for projects that provide basic health care, nutritional development programs, formal primary education, and informal short-term training programs for adults in areas with the highest incidence of acute poverty.

43. Another component of the Government's focus on human resources is its plan, completed in late 1990, to involve indigenous peoples in the process of economic development, acknowledging their rights to land and related natural resources. This program is expected to have direct, beneficial effects on income distribution.

44. The problem of illiteracy in Bolivia is related not only to the unavailability of schools for part of the population but also to significant inefficiencies in the education sector. To overcome the most severe inefficiencies, the Government has devised a plan for educational reform which emphasizes the reallocation of resources from higher education to basic levels and from urban to rural areas. The plan also involves a reform of the teacher management system, the strengthening of the system's capacity to reach women, and a closer coordination with NGOs that are active in education. This plan would include an increase in expenditure by the Central Government on textbooks and other teaching materials to 5 percent of current expenditures on primary education by 1993 from virtually nil in 1989.

45. Factors accounting for the poor health conditions in Bolivia include the limited coverage of health care services and inadequate organization and management in the Ministry of Health. The Government's objectives for the health sector are to improve maternal and child health programs, modernize and raise the effectiveness of the Ministry of Health, and improve the coordination of donor activity. The Government has elaborated and started to implement the national maternal and child survival program. To support this program, the Central Government will raise the share of current expenditure devoted to the health sector from 3 percent in 1989 to 3.8 percent by 1993; the share of health care expenditure in major cities devoted to primary health care from about 25 percent in 1989 to 30 percent by 1993; and the share of personnel allocated to primary health care in major cities from 30 percent in 1989 to 40 percent by 1993. It also has begun to reorganize the key agencies in the Ministry of Health, to improve coordination of the various programs financed by donors, and to strengthen the Ministry's planning and

budgetary procedures. Finally, government policy allows the contracting of basic health care services out to NGOs or local governments. The integration of public and NGO services that is emerging from these contracts represents an important step toward improving the efficiency and coordination of the sector, increasing the access of the population to basic health care, and ultimately improving the health status of the population.

Environment

46. As part of the project "Pause for the Environment", in 1990 the Government introduced a five-year moratorium on the granting of new timber concessions, as the first step in the design and implementation of a comprehensive environmental program for Bolivia. The program will provide for guidelines and legislation for the protection and rational use of national resources, including forestry, flora, fauna, soil, water, and air. Initial steps include the preparation of ecological and land use maps of Bolivia. Also, an environmental action plan under preparation will establish guidelines for sustainable development activity, pollution control, and conservation of biodiversity. It is expected that the guidelines will provide scope for substantial growth in the output and exports of forest products, perhaps including rubber and Brazil nuts as well as wood products. Under the Enterprise for the Americas Initiative, the Government has proposed to reduce the face value of its bilateral debt with the United States, and to repay the remaining principal while depositing interest payments in a local-currency account for the recently created National Fund for the Environment to support conservation and programs for sustainable development. Some of the employment-generating investment under the alternative development program for coca eradication is to be directed toward reforestation and the control of soil erosion.

V. External Financing Requirements

47. Implementation of the economic and social program described in this paper will require large inflows of concessional assistance and debt relief during 1991-93 in order to supplement Bolivia's domestic savings effort. Without this external support, it will not be possible to begin to overcome the impediments to faster growth and poverty alleviation. The external financing requirements of the program have been derived on the assumption that the growth of merchandise exports will average about 5 1/2 percent a year in volume and almost 7 percent a year in U.S. dollars over the three years 1991-93, as Bolivia gradually shifts the composition of its exports toward nontraditional products. With a projected 8.8 percent average annual increase in the value of merchandise imports, the current account deficit (excluding official transfers) is expected to average about US\$450 million in the period 1991-93 (Table 2).

48. In view of the existing pipeline of concessional assistance and anticipated new commitments, based on the outcome of the meeting of the Consultative Group for Bolivia in November 1990, disbursements of official grants and long-term loans are expected to average about US\$480 million a year in the period 1991-93 of which some 38 percent would be in the form of grants. Almost all long-term loan disbursements are from multilateral sources since bilateral foreign aid to Bolivia typically is in the form of grants. In the period 1991-93 World Bank disbursements would amount to US\$65 million a year (excluding a contribution of US\$10 million from the IDA for Bolivia's buyback of debt to commercial banks), and disbursements by the Inter-American Development Bank are expected to average about US\$120 million a year during the same period. The program assumes that Bolivia will eliminate the remainder of its debt to commercial banks in 1991 through the use of funds designated for this purpose. The third annual ESAF arrangement would provide external financing of about US\$65 million in 1991.

49. Under current assumptions, and taking account of amortization and Fund repurchases falling due, other net capital flows, debt relief already obtained, and the projected prudent buildup of gross official reserves, there remains a financing gap totaling US\$250 million for 1992-93. (The financing gap for 1991 has been closed by the agreements reached with Paris Club creditors in March 1990 and with Brazil in February 1990.) The financing gaps for 1992-93 are expected to be covered by further rescheduling of official bilateral debt and additional donor support.

Table 1. Bolivia: Selected Economic and Financial Indicators

	1988	1990		Projections			
		1989	Rev. Prog. 1/ (EBS/90/168)	Est.	1991	1992	1993
(Annual percent change, unless otherwise stated)							
Income and prices							
GDP at constant prices	3.0	2.7	3.0	2.7	3.5	4.2	4.2
GDP deflator	14.0	13.4	12.8	14.4	22.0	6.8	6.6
Consumer prices (end of period)	21.5	16.6	9.0	18.0	15.0	7.4	5.0
Consumer prices (period average)	16.0	15.2	14.6	17.1	22.8	7.6	6.2
External sector (in terms of U.S. dollars)							
Merchandise exports (f.o.b.)	4.6	33.4	2.1	11.7	5.4	6.2	9.2
Nongas exports	21.2	55.6	0.3	14.4	5.5	11.3	10.9
Merchandise imports (c.i.f.)	-0.2	13.6	6.3	6.3	9.6	8.3	8.4
Export volume	8.8	26.4	9.7	15.0	5.4	5.7	5.2
Import volume	-10.3	12.9	2.2	3.9	3.5	4.0	4.0
Terms of trade (deterioration -)	-13.6	4.9	-11.7	-5.0	-5.6	-3.5	-0.4
Real effective exchange rate (depreciation -)							
End of period	-0.6	-6.7	...	-13.3	3.7 2/	...	...
Period average	-7.5	-3.1	...	-16.0	...	...	...
Nonfinancial public sector 3/							
Revenue and grants	54.4	26.4	27.6	27.6	32.3	8.6	9.9
Total expenditure	36.6	17.9	17.7	18.2	28.5	8.6	9.7
Current expenditure	31.1	18.8	14.8	20.8	23.2	7.3	9.1
Capital expenditure	52.0	15.7	25.0	11.6	42.5	12.9	11.6
Money and credit 4/							
Net domestic assets	38.1	32.5	15.0	24.7	11.7	8.4	8.1
Of which: credit to nonfinancial public sector	28.3	33.3	4.6	7.4	-2.2	-1.3	-0.8
credit to private sector	23.5	22.2	20.4	29.2	17.8	12.7	9.1
Liabilities to private sector (M3)	35.0	19.6	25.0	35.9	19.6	12.9	10.5
Interest rates (percent per annum, end of period)							
Yield on CDs in local currency	25.8	45.9	...	49.7	...	...	...
Yield on CDs in U.S. dollars	15.5	18.6	...	17.0	...	...	...
Liabilities to private sector 5/	43.4	33.4	35.9	48.7	26.5	15.5	11.0
Broad money 6/	25.4	-4.4	18.9	27.5	19.9	13.3	10.8
U.S.-dollar denominated deposits 5/	64.8	67.7	44.7	59.7	29.3	16.4	11.1
(In percent of GDP)							
Nonfinancial public sector savings 3/	1.6	3.0	5.4	4.3	6.0	6.2	6.3
Combined public sector deficit	-6.7	-5.4	...	-3.9	-3.2	-2.9	-2.5
Nonfinancial public sector deficit 3/	-6.5	-5.1	-3.2	-3.3	-2.6	-2.6	-2.5
External financing	4.5	2.1	3.1	2.4	3.5	2.8	2.7
Domestic financing	2.0	2.9	0.1	0.9	-0.9	-0.2	-0.2
Central bank losses (-)	-0.2	-0.4	...	-0.6	-0.6	-0.3	--
Gross domestic investment	12.1	11.3	14.1	11.4	13.3	14.0	15.1
Gross national savings	3.7	5.5	7.4	6.5	8.1	8.9	10.4
External current account deficit 7/	8.3	5.8	6.7	4.9	5.1	5.0	4.6
(Before official transfers)	11.1	8.7	9.8	8.0	8.3	8.4	8.0
Public sector external debt 8/	97.9	83.9	85.0	89.6	79.1	77.4	73.5
Debt service paid 9/	38.2	25.9	34.7	33.4	31.1	29.2	30.3
Banking system liabilities to private sector	16.2	18.5	21.6	23.5	23.5	24.0	24.0
(In millions of U.S. dollars)							
Change in net official reserves	-30	-140	79	99	75	50	30
Gross official reserves (months of imports, c.i.f.)	6.0	4.8	4.4	4.5	4.8	4.5	4.2
Public sector external debt (in billions of U.S. dollars)	4.33	3.77	3.78	4.01	3.99	4.14	4.28

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

1/ Program data have been adjusted for arrears to foreign creditors and debt agreement with Brazil in accordance with the Memorandum of Economic and Financial Policies dated October 11, 1989.

2/ Change over 12 months to March 1991.

3/ Gas export revenues and interest payments on a payments due basis.

4/ Changes in percent of liabilities to private sector at beginning of year, at accounting exchange rates.

5/ Foreign currency deposits valued at end-period exchange rates.

6/ Currency in circulation plus local currency deposits.

7/ Excludes grants to finance debt reduction.

8/ Medium- and long-term debt, includes obligations to the Fund and debt with public guarantee.

9/ On public sector external debt, including interest on short-term debt, in percent of exports of goods and nonfactor services; assumes rescheduling of official bilateral debt to fill financing gaps for 1992-93.

Table 2. Bolivia: External Financing Requirements, 1989-93

(In millions of U.S. dollars)

	1989	Est. 1990	Projections		
			1991	1992	1993
<u>Total financing requirements</u>	<u>531.5</u>	<u>866.6</u>	<u>829.0</u>	<u>759.4</u>	<u>723.6</u>
Current account deficit excluding official transfers)	392.9	357.4	417.7	451.5	465.9
Public debt amortization due	186.9	234.3	246.7	257.9	227.7
Debt reduction <u>1/</u>	40.8	6.6	22.8	--	--
Net change in arrears <u>2/</u>	-7.4	140.9	1.8	--	--
IMF repurchases	6.2	39.6	46.0	37.7	29.6
Change in gross official reserves <u>3/</u>	-87.9	87.8	94.0	12.3	0.4
<u>Total identified financing</u>	<u>363.9</u>	<u>576.2</u>	<u>639.6</u>	<u>568.7</u>	<u>612.2</u>
Official grants <u>4/</u>	174.7	145.0	182.8	181.8	196.4
Long-term loan disbursements <u>5/</u>	334.3	314.1	276.2	291.9	312.3
Multilateral	242.6	227.3	222.6	238.1	256.9
Of which: World Bank/IDA	77.8	48.2	59.5	66.6	71.9
IDB	94.6	127.4	110.3	123.5	133.3
Bilateral	91.7	86.8	53.6	53.8	55.3
IMF <u>6/</u>	58.1	28.5	65.0	--	--
Overdue gas receipts	-85.1	-18.9	33.8	--	--
Other capital (net) <u>7/</u>	-118.1	107.5	81.8	95.0	103.5
<u>Debt relief</u>	<u>167.6</u>	<u>290.4</u>	<u>189.4</u>	<u>32.0</u>	<u>15.5</u>
<u>Financing gap</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>158.6</u>	<u>95.9</u>

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

1/ Cash value of commercial bank debt reduction operations assuming an average of US\$0.11 per US\$1 of face value.

2/ Excludes arrears to foreign commercial banks and overdue gas receipts.

3/ Net of liabilities to the Andean Reserve Fund and other short-term liabilities.

4/ Includes donations for debt reduction.

5/ All disbursements are from official creditors.

6/ Disbursements are under the Enhanced Structural Adjustment Facility.

7/ Direct foreign investment, short-term capital, and errors and omissions.

Bolivia: Summary and Timeframe for Macroeconomic and Structural Adjustment Policies, 1991-93

Policy Areas	Objectives	Strategies	Specific Measures	Timetable
1. Fiscal policy	Increase public savings to permit higher public investment while making possible a substantial reduction in Central Bank credit to the non-financial public sector.			
a. Revenue	Keep level of revenue consistent with public sector savings targets.	Maximize revenue potential of existing taxes by strengthening tax and customs administration.	Implement tax code providing for adequate penalties for tax delinquency.	Starting in 1991.
			Implement auditing program with quantitative targets including the monitoring tax payments of medium-sized and large taxpayers.	From January 1991 through end-1993.
			Implement an information system for customs to strengthen monitoring of imports declarations and auditing of related tax payments.	From January 1991 through mid-1992.
		Maintain oil sector's contribution to domestic resource mobilization.	Adjustments as needed.	1991-93.
		Maintain other public sector prices on an economic basis.	Revise price schedules as necessary.	1991-93.

Bolivia: Summary and Timeframe for Macroeconomic and Structural Adjustment Policies, 1991-93 (Continued)

Policy Areas	Objectives	Strategies	Specific Measures	Timetable	
b. Expenditure	Keep level of expenditure consistent with the availability of domestic and foreign resources and with the need to reduce inflationary pressures.	Prepare public sector management program, identifying "key positions" and establishing norms for determination of salary structure designed to attract and retain qualified staff. Make wage policy consistent with the rationalization of the civil service salary structure. Public sector wage awards to reflect productivity changes. Eliminate redundant civil service positions.	Establish timetable.	By December 1991.	
			Begin to implement timetable.	By December 1992.	
			Extend new uniform procedures for public sector accounting, budgeting and treasury/public credit to decentralized institutions and governments.	Disseminate standards. Establish accounting systems. Implement auditing standards; train public servants in financial management and control.	By December 1991. By December 1992. By December 1993.
			Strengthen auditing and control functions for the Controller General's Office, enforce public accountability.		
Maintain a level of public investment consistent with growth targets, social aims, and availability of resources.	Improve the Government's capacity to implement the investment program, and the quality of the public sector investment.	Improve the setting of investment priorities through further screening of the core program. Review 1991-93 Public Investment Program accordingly.		By December 1991.	
			Develop sectoral ministries' ability to formulate, implement and monitor investment programs. Strengthen the disbursement administration of foreign loans.	1991-93.	
			Conduct regular meetings with donor representatives on the implementation of investment projects.	Monthly during last 3 quarters of 1991. Occasionally during 1992-93.	

Bolivia: Summary and Timeframe for Macroeconomic and Structural Adjustment Policies, 1991-93 (Continued)

Policy Areas	Objectives	Strategies	Specific Measures	Timetable
2. Public enterprise reform	Improve efficiency and financial performance of enterprises; increase their managerial autonomy and accountability; and mobilize additional financial and entrepreneurial resources.	Develop program to privatize or restructure public enterprises through leasing or management contracts, employee or public share issues and liquidation.	Issue a decree establishing the objectives and principles of the privatization program and the procedures to implement it, including a list of enterprises that will be offered for sale.	By May 1991.
			Send to Congress legislation to allow the sale of public assets of the enterprises to be privatized.	By July 1991.
			Complete valuation of a significant number of enterprises being readied for sale.	By October 1991.
			The Government will offer for sale enterprises accounting for at least 10 percent of gross assets of public enterprises operating in competitive markets.	By December 1991.
			Implementation of restructuring plan will continue with action plans and timetables for the remaining enterprises to be privatized.	1992 and 1993.
			Enter into performance contracts with larger enterprises remaining in the public sector to ensure that management and financial performance are monitored and improved.	During 1991.
			Allow the private sector to enter into joint ventures and leasing contracts with the Bolivian Mining Company and the Bolivian Petroleum Corporation.	1991-93.

Bolivia: Summary and Timeframe for Macroeconomic and Structural Adjustment Policies, 1991-93 (Continued)

Policy Areas	Objectives	Strategies	Specific Measures	Timetable
3. Financial sector policies	Improve the efficiency and viability of the financial system.	Maintain appropriate legislation and macroeconomic stability; continue to allocate credit through a competitive market and freely determined interest rates; maintain a strong supervision of financial sector intermediaries.	Send to Congress new central bank and commercial banking laws.	By July 1991.
			Issue decree to cease lending operations of the Agricultural Bank, Mining Bank, and National Mining Exploration Fund and to establish a plan for their liquidation. Issue decree to restrict significantly the functions of the Bolivian State Bank.	By July 1991.
			Continue implementing the liquidation of public sector banks or, in the case of the Bolivian Mining Bank, privatization.	1992 and 1993.
			Improve the Central Bank's policy effectiveness and reduce its losses.	Starting 1991.
		Give qualified nonbank financial institutions access to central bank development credit to onlend to the private sector.	Restructure Financial System Department to strengthen its capacity to monitor developments in the financial system, assisting distressed financial institutions, and improving coordination with the Superintendency of Banks. Develop operations manuals in line with new organization.	March 1991-March 1992.
			Improve CD auction procedures and foster a secondary market. Implement a system of liquidity forecasts.	By May 1991.
			Restructure Development Department to streamline procedures for extension of development credit and improve administration of auction system.	April 1991.

Bolivia: Summary and Timeframe for Macroeconomic and Structural Adjustment Policies, 1991-93 (Continued)

Policy Areas	Objectives	Strategies	Specific Measures	Timetable
		Improve efficiency of contractual savings system and capital markets.	Full review of the Social Security System.	Mid-1992.
4. External sector policies.	Make progress toward achieving balance of payments viability.	Maintain a unified foreign exchange market with unrestricted access. Maintain a system free of restrictions on payments and transfers for current or capital international transactions.		1991-93.
		Promote growth of nontraditional exports and provide uniform treatment of exporters.	Implement a duty drawback scheme.	1991-93.
		Continue seeking to reduce burden of external debt and debt service.	Streamline export procedures.	Starting in July 1991. 1991-93.

Bolivia: Summary and Timeframe for Macroeconomic and Structural Adjustment Policies, 1991-93 (Continued)

Policy Areas	Objectives	Strategies	Specific Measures	Timetable
5. Agricultural policy	Promote growth of agricultural output for domestic and export markets, and improve farmers' productivity and income.	Upgrade policy planning and monitoring capacity of the Ministry of Agriculture.	Implement a program, with external support, for reorganizing operations of the Ministry and regional development corporations.	Underway; to be finalized in 1991.
		Upgrade technical and management capabilities of the Bolivian Institute of Agricultural Technology.	Design a strategic plan for the reorganization of the Institute.	Underway; to be finalized by September 1991.
		Develop alternatives to coca leaf cultivation.	Implement Alternative Development Program.	1991-93.
		Promote private sector involvement in agriculture and ensure consistency of Government's agricultural policy with private sector production and investment plans.	Establish the National Advisory Board on Agricultural Extension and Research with private participation.	By September 1991.
		Improve legal framework of land tenure.	Clarify legal status of land holding. Streamline administration and approval of titles to land holdings.	By December 1991.
6. Industrial and energy policies, and private investment.	Improve the economic environment for private investment, and facilitate market entry of new firms.	Create appropriate legislation governing private investment, and activity in the mining and hydrocarbon sectors.	Implementation of the legislative framework.	1992 and 1993.

Bolivia: Summary and Timeframe for Macroeconomic and Structural Adjustment Policies, 1991-93 (Continued)

Policy Areas	Objectives	Strategies	Specific Measures	Timetable
a. Manufac- turing	Promote private domestic and foreign involvement in manufacturing.	Restructure the National Export Promotion Institute to support export-oriented investment.	Reorganization underway.	Completion by December 1991.
b. Mining	Promote private domestic and foreign involvement in the mining sector.	Improve the operating efficiency of the Bolivian Mining Company; open up state mining reserves to private exploitation; promote joint ventures for domestic and foreign firms with the Company.	Replace the Bolivian Mining Company headquarters by a holding company mechanism. Closure of unprofitable mines. Operation of remaining mines, including the Bolivar mine, through joint ventures or leases with the private sector.	1991-93. 1991-93. 1991-93.
c. Energy	Encourage private investment in gas exploration and production. Increase production and exports of hydrocarbons and electricity, and encourage domestic consumption of natural gas to free petroleum products for export.	Avoid double taxation of foreign companies. Improve procedures for the Bolivian Petroleum Corporation to enter into joint ventures with private investors. Seek export markets for Bolivian hydrocarbons and electricity.	Sign operation agreements with foreign oil companies. Construction of a power plant on the border with Brazil and a related gas pipeline from the Santa Cruz gas field. Construction of intra-city network of natural gas pipelines.	1991-93. Completion by 1993. Completion by December 1992.
d. Transporta- tion	Reduction of transport costs.	Improvement of railway operations in the export corridors; private involvement in the sector; road maintenance and expansion of network.		

Bolivia: Summary and Timeframe for Macroeconomic and Structural Adjustment Policies, 1991-93 (Concluded)

Policy Areas	Objectives	Strategies	Specific Measures	Timetable	
7. Social sectors and social impact	Promote development of human capital and alleviate poverty.	Establishment of the Social Investment Fund (SIF) in 1990 to alleviate poverty and increase investment in health and education.	Mobilize US\$40 million a year for SIF to increase the coverage and strengthen the qualities of services through financing investment in infrastructure and services in primary health care, water supply, basic sanitation facilities, nutrition, basic education and training.	Starting in 1991.	
	Improve efficiency of public expenditures to enhance primary education.	Resources to be reallocated from higher education to basic levels, and from urban to rural areas; emphasis on the education of women.	Increase the share of primary education teaching materials in total primary education expenditures to 5 percent.	By December 1992.	
	Improve the efficiency and increase the share of public expenditures in health care.		Reorganize the Ministry of Health.	Implement decentralization plan for education. Reform teacher management system.	By December 1992.
				Reorganization underway.	Completion by December 1991.
				Gradually increase the share of current expenditures devoted to health sector.	1991-93.
				Gradually increase the share of health expenditures devoted to primary health.	1991-93.
		Gradually increase the share of personnel allocated to primary health care in major cities.	1991-93.		
		Increase the contracting out of basic health care services to nongovernmental organizations and local governments.		1991-93.	
8. Environment	Develop national policy for sustainable development consistent with adequate pollution control and conservation of biodiversity.		Prepare guidelines and introduce legislation for the protection and rational use of natural resources.	By December 1991.	
			Strengthen institutions involved in enforcing environmental norms.	Starting in 1991.	
			Engage in debt-for-nature swaps.	Starting in 1991.	