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June 23, 1988

To: Members of the Executive Board
From: The Secretary
Subject: Bolivia - Economic Policy Framework for 1988-91

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

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

Att: (1)

Other Distribution:
Department Heads

La Paz, Bolivia
June 17, 1988

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

1. We are pleased to transmit to you the attached Economic Policy Framework for 1988-91 ("the Policy Framework Paper"), which has been prepared in collaboration with the staffs of the Fund and the World Bank. It updates and extends by two years the Medium-Term Economic and Financial Policy Framework, 1987-89 that was transmitted to the Fund in November 1986. The present paper describes the major economic problems and changes facing Bolivia; reviews progress made in 1987 in implementing the policies described in the earlier paper; sets forth the objectives of the Government for 1988-91 to strengthen substantially and in a sustainable manner Bolivia's balance of payments position and to foster economic growth; describes the measures envisaged to attain those objectives; and describes the likely external financing requirements in that period, together with the available sources of such financing.

The Government of Bolivia will remain in close contact with the staffs of the Fund and the World Bank on developments and progress in implementing the policies described in the attached Policy Framework Paper, which will be updated annually as the program is implemented.

2. The Government of Bolivia believes that the Policy Framework Paper prepared in 1986 played a useful role in informing the international financial community of its growth-oriented adjustment program and in mobilizing external resources in its support. The Government intends to use the present Policy Framework Paper as a basis for requests for further financial support from the Fund and the World Bank.

We have sent today a copy of the attached document to Mr. Barber Conable, President of the World Bank. We authorize you, at your discretion, to transmit the document to any international organization that requests it. The Government looks forward to an early meeting of the Consultative Group for Bolivia under the auspices of the World Bank.

Sincerely yours,

Gonzalo Sanchez de Lozada
Minister of Planning and
Coordination

Juan Cariaga
Minister of Finance

Javier Nogales
President
Central Bank of Bolivia

Attachment: Economic Policy Framework for 1988-91

INTERNATIONAL MONETARY FUND

BOLIVIA

Economic Policy Framework for 1988-91

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

June 22, 1988

I. Introduction

1. In mid-1985 Bolivia was in the throes of a severe economic and financial crisis. Real GDP was contracting for the fourth consecutive year, per capita GDP had dropped by 25 percent since 1980, shortages were widespread, and the annual rate of inflation exceeded 20,000 percent. The external situation was characterized by extreme currency overvaluation, the depletion of usable international reserves, severe trade and payments restrictions, and the rapid buildup of external payments arrears. The new Government, inaugurated in August of that year, adopted a radical reorientation of economic policy. Prices in the product, labor, foreign exchange, and financial markets were freed and the Government restored control over the operations of the public sector. The deregulation of markets was followed over the next two years by the implementation of other structural reforms, including the adoption of a new tax system and measures to reorganize the state enterprises and reform the financial system. In view of the vast scope and considerable depth of the structural reforms already undertaken or initiated soon after stabilization, the Government's medium-term strategy, as laid out in a policy framework paper (PFP) for the period 1987-89 that is updated and carried forward to 1991 in this document, focuses on actions to complete the structural reforms in a free-market setting that combines tight demand management with a wide range of supply-side policies.

2. The results for 1987, the first year of the medium-term program, were mixed. Inflation declined to the single-digit range and, for the first time in six years, economic activity began to improve. A major effort was made to raise general government revenue, the state mining company (COMIBOL) was restructured, public employment was reduced, new banking regulations were issued, reforms were initiated in several state banks, and measures were adopted to stimulate exports. Notwithstanding these achievements, however, the balance of payments and the financial position of the public sector weakened, reflecting a deterioration of the terms of trade, the temporary suspension of payments by Argentina for Bolivian gas exports, and increases in public spending.

3. While further progress toward significant structural reforms was made in 1987, Bolivia still faces major difficulties. To reverse the

deterioration of the fiscal performance with respect to 1986 and the program for 1987, efforts aimed at improving general government revenue must continue while expenditure growth must be restrained. The financial position of the state enterprises has improved, but the low rate of implementation of investment projects remains an area of concern. A number of commercial banks experienced liquidity and solvency problems because of nonperforming loans, mainly due to the high levels of real interest rates. Notwithstanding progress in obtaining debt relief, Bolivia's external debt service obligations still represent a heavy burden on both the public finances and the balance of payments. The medium-term prospects for the external sector remain difficult. Even if further steps are taken to increase domestic savings and to foster the continued diversification of export products and markets, support from the international community will be required in the form of concessional financing.

II. The Adjustment Program for 1987

4. The broad objectives of the program for the period 1987-89, which was developed in close collaboration with the staffs of the Fund and the World Bank, were the consolidation of the stabilization effort begun in August 1985, achievement of higher domestic savings, a shift of development strategy away from tin mining and toward other mining and agriculture, export diversification, maintenance of price stability, and achievement of balance of payments viability. Apart from a few clearly delineated productive activities, the role of the state was to be limited to macroeconomic management and the provision of essential social services. The economic and financial objectives for the three-year period were (1) real GDP growth of about 3 1/2 percent a year, mainly arising from growth in agriculture and nontin mining and a recovery in manufacturing; (2) a reduction in consumer price increases from 66 percent in 1986 to about 5 percent in 1989; and (3) overall balance of payments equilibrium, with a small loss of net official international reserves in 1987 offset by a gain in the following two years.

5. In order to attain these objectives, the Government began implementing the tax reform passed by Congress in May 1986, began reorganizing the tax administration agencies (customs and internal revenue), established a separate Ministry of Tax Collection, and made the commercial banks the tax collection agents. Although some of these measures are still in the process of implementation, tax collections of the General Government increased vigorously, reaching 6.6 percent of GDP in 1987 compared with 2.1 percent of GDP in 1985.

6. In addition, the Government adopted measures aimed at supporting the continued restructuring and reactivation of the economy (Supreme Decree No. 21660 of July 10, 1987). The measures sought to increase public and private investment within the context of fiscal stability, extend working capital to productive sectors, create incentives for

exports, strengthen and regulate the financial system, and provide relief to the poorest segments of society. Because institutional weaknesses had kept disbursements of external resources far below available amounts, which had resulted in a disappointingly low level of public investment, a Subsecretary for Coordination, Public Investment, and International Cooperation was appointed to improve the execution of the public investment program and mobilize external assistance for high priority projects. The terms and conditions of access to intermediated foreign lines of credit for working capital to the private sector were improved. In line with the Government's commitment to a uniform tariff level, tariff reductions for the state-owned petroleum company were withdrawn. At the same time, tax rebates--equivalent to 5 percent and 10 percent, respectively, of the f.o.b. value of traditional and non-traditional exports--were authorized and a National Institute for Export Promotion (INPEX) was created. To eliminate the discriminatory treatment of local currency deposits, the differentiation of legal reserve requirements on bank deposits by currency of denomination was abolished; the minimum ratio on demand and savings deposits was set at 20 percent while that on time deposits was raised in monthly installments to 10 percent by the end of 1987. Also, banking regulations in respect of loan provisions and interest accrued on nonperforming loans, loan concentration, minimum capital requirements, and information disclosure were tightened. A National Council for Social Policy, chaired by the President of the Republic, was established to design the social policy of the country and elaborate a three-year investment program geared to address the serious conditions faced by much of the population in the areas of health, nutrition, education, sanitation, water, and housing.

7. Considerable progress was made in reaching an agreement with foreign commercial bank creditors. The banks agreed to allow Bolivia to buy back its debt to them with funds contributed by other countries. For this purpose, the Government of Bolivia requested the International Monetary Fund to establish a voluntary contribution account to administer and disburse funds contributed for this purpose and Bolivia offered to buy back its debt at 11 U.S. cents per US\$1 of principal. The option of converting bank debt into fully collateralized zero-coupon bonds with an initial value equivalent to the buyback price was offered in parallel with the buyback. At the conclusion of the buyback period in March 1988, banks had tendered claims equivalent to almost one half of the total bank debt outstanding. The remaining bank debt, virtually all of which is in arrears, will be renegotiated between Bolivia and its bank creditors, and negotiations to this effect are expected to begin in the near future.

III. Targets and Strategies for 1988-91

8. The structural and financial policies set out in the original medium-term policy framework paper remain broadly appropriate. However, some corrections and adaptations of policies must be made in light of the technical and administrative limitations encountered during 1987. Accordingly, in cooperation with the staffs of the Fund and the World Bank, the Government has updated its medium-term policy framework and extended it to cover the period 1988-91. The economic and financial objectives of the program remain economic growth of about 3-4 percent a year, maintenance of domestic price increases within the single-digit range, external current account deficits that decline gradually relative to GDP, and a small overall balance of payments surplus over the four-year period.

9. The achievement of external viability will require extraordinary efforts by Bolivia and the international financial community. In order to achieve that objective, the Government will maintain the appropriate macroeconomic policy stance and external competitiveness: (i) the fiscal component of the program would envisage a decline in the overall deficit of the nonfinancial public sector from about 10 percent of GDP in 1987 to below 7 percent of GDP in 1988 and about 4 1/2 percent of GDP in 1989-91. Except for 1988, the annual deficits would be fully financed with concessional external loans. The savings of the nonfinancial public sector are expected to improve from a negative 4.8 percent of GDP in 1987 to positive levels of 0.1 percent of GDP in 1988 and 2.2 percent of GDP in 1991. The public investment program would be equivalent to about 7 percent of GDP a year; (ii) the domestic credit policy pursued during the program period would be geared to achieve the balance of payments and price objectives. Interest rates will continue to be determined by market forces, with the aim of attracting private sector savings and strengthening the efficiency of intermediation. As a temporary exception from this policy, interest rates on foreign lines of credit intermediated by the Central Bank will remain at LIBOR plus 5 percentage points in the expectation that the provision of working capital and cost reductions in banking operations as a result of the World Bank's financial sector adjustment credit (FSAC) operation will lead to a reduction of market interest rates. However, it is the Government's intention to let the development loan rate converge to the level of after-tax interest rates on bank deposits by the time the FSAC operation has been completed. To encourage the free determination of interest rates, reserve requirements on bank deposits will be remunerated irrespective of the banks' observance of the reference interest rates suggested by the bankers' association. With the prospect of continued improvement in private sector confidence, real interest rates are expected to decline substantially over the program period, reflecting a reduction in the risk premium currently embedded in interest rates; (iii) a number of measures have been adopted to improve infrastructure and credit conditions for exports (paragraph 17). In combination with the tax rebates on nontraditional exports and the lowering of the customs tariff to a uniform rate of 10 percent, a

competitive exchange rate will be maintained throughout the program period so as to enhance the attractiveness of production for exports, particularly of nontraditional products. On the supply side, coherent policies have been designed to reduce further the structural imbalances in the economy through improvements in public sector management and investment, the strengthening of the external sector, accelerated implementation of policies in the agriculture and agroindustrial, mining, energy, and transport sectors, and reform of the domestic financial system. Also, greater attention will be paid to the development of human resources, which are crucial to long-term development. A summary of the Government's policy intentions with a time frame for their implementation is attached.

a. Public sector management and investment

10. The principal fiscal policy objectives of the Government are to achieve public savings at least sufficient to provide counterpart funds required for the public investment program and to service amortization payments that cannot be rescheduled. The public finances will be strengthened through a sustained increase in tax collection, proper pricing policies in the state enterprises, and the limitation of current expenditure. These tasks will be facilitated by improvements in public sector management techniques implemented with technical assistance from the World Bank. As part of this effort, technical assistance also will continue to be provided by the Fund to strengthen control over public expenditure. Investment implementation capacity and resource allocation will be enhanced by a clearer definition of the sectoral priorities and strategies. A team of specialists financed by the Technical Cooperation Agency (GTZ) of the Federal Republic of Germany, the United Nations Development Program (UNDP), and two World Bank staff members seconded to the Ministry of Planning and Coordination will help with the design of the sectoral strategies and the implementation of the investment plan.

11. The restructuring of the state enterprises will continue. Following the reorganization of COMIBOL, the Government will focus on the reorganization of the state petroleum company (YPFB), in both cases with technical and financial assistance from the World Bank. YPFB's costs of operation will be examined carefully with a view to reorganizing the company's financial administration into cost centers and to improve its system for financial information, planning, and control. Other state enterprises, including the state electricity company (ENDE) and the state railroad company (ENFE), will be studied with a view to streamlining their operations and increasing their operating surplus.

12. The Government will encourage the divestiture of state enterprises. The divestiture process is focusing on companies held by the former Bolivian Development Corporation (CBF) and some companies originally founded by the regional development corporations, but the Government also will seek to identify other enterprises for divestiture. For this purpose, Bolivia is receiving technical assistance from U.S. AID. Joint ventures and operating contracts will

be sought in the areas of mining and hydrocarbons, in view of the existing constitutional restrictions to divestiture in these areas.

13. Actions already have been taken to encourage private investment, including the freeing of prices in the economy, the return to collective bargaining at the enterprise level in the private sector, and the repeal of employment stability regulations. Arrears to the two foreign-owned petroleum companies are being settled and the companies have committed themselves to reinvest in Bolivia most of the arrears payments and proceeds from future operations. A cash bonus of initially 50 percent will be offered to investors converting Bolivian zero-coupon exit bonds (see paragraph 7 above) into investments in Bolivia. A new investment code, with simpler rules and regulations for private investment, is being prepared. Private investment also will benefit from public investment in infrastructure, the financial sector reforms discussed below, and the maintenance of a stable economic environment.

14. Full implementation of the tax reform is critical for the progressive reduction of the deficit of the nonfinancial public sector. All taxes, except for the tax on rural land holdings, are now levied on the basis of guidelines established in 1987. In 1988 the Government will prepare the guidelines for the rural property tax and begin to implement it. Following congressional approval, a new tax on durable goods also will be implemented in 1988. To increase tax collections, the Government is implementing an emergency program (based on recommendations given by technical assistance from the Fund) that includes the targeting of large taxpayers for audits, further strengthening of customs administration, improved methods of control and evaluation of the tax collection agencies, and a public relations program. These measures are expected to result in an increase in tax revenues of the General Government from 6.6 percent of GDP in 1987 to more than 10 percent in 1991. The sharing provisions of the proceeds from the sales of hydrocarbons were modified in early 1988 to benefit the state petroleum company (YPFB). Finally, a new tax regime for the mining sector will be introduced during the program period.

15. Every effort will be undertaken during the program period to limit current expenditure of the public sector, including wage outlays. The number of civil servants and employees of the state enterprises and local governments will be reduced further, but higher pay scales will be introduced to recruit and retain qualified specialists and top-level managers. Policy for the delivery of services in the social sectors will focus on cost recovery, targeting of services to low-income or vulnerable groups, and promotion of initiative by private voluntary groups. Except for quantitative restrictions on imports of sugar to protect domestic producers, all subsidies have been eliminated and no new subsidies will be introduced. It is expected that current expenditure will rise at a slower pace than revenue during the program period, thus permitting the achievement of the public savings targets mentioned in paragraph 9 above.

b. External sector policies

16. The Government intends to continue the pursuit of outward-looking policies during the program period. The exchange rate will continue to be determined through daily foreign exchange auctions conducted by the Central Bank, and access to the auction market will remain free. Following a sharp drop in the level of net international reserves during 1987--in part reflecting the impact of the buildup of arrears by Argentina on its payments for Bolivian gas exports--the Central Bank's net international reserves will increase in 1988 on account of the settlement of arrears by Argentina. The Government will keep the external trade and payments system free of restrictions, except as described in paragraphs 7 and 15 above. Licensing restrictions for sugar imports will be lifted during the program period. A uniform customs tariff of 10 percent will prevail after the completion in 1990 of the quarterly reductions of 1 percentage point of the customs tariff on imports other than capital goods. The tariff on capital goods was already lowered to 10 percent in early 1988 and most tariff exemptions have been eliminated. The exemption on wheat imports is slated for elimination during 1988. The domestic resale price of donated wheat already reflects world market prices. The Government expects to complete the procedures for full membership in the GATT in the course of 1989.

17. A number of measures have been adopted to improve Bolivia's international competitiveness. The tax rebates mentioned in paragraph 6 above will in future be granted only to nontraditional exports. In addition, railway tariffs for exports were reduced and electricity rates were lowered for productive activities as part of a rationalization of electricity charges. The Government intends to conduct its exchange rate policy during the program period in such a way as to achieve the balance of payments objective referred to in paragraph 8 above. It believes that this objective can be achieved by moving the exchange rate faster than the rate of domestic inflation, but policy in this area will be guided by the evolution of exports and the behavior of the overall balance of payments. As already indicated, credit policy will be directed to maintaining an adequate level of international reserves and domestic price stability. In addition, exports will be encouraged by the use of foreign lines of credit for the provision of pre- and post-shipment financing through the banking system. Export procedures will be streamlined and no quotas or prohibitions will be imposed for the benefit of domestic consumers. Exports also should benefit from the improvement in transportation infrastructure, especially along Bolivia's export corridors. Finally, the National Institute for Export Promotion (INPEX) is expected to provide information on export procedures and markets in importing countries, especially for small manufacturing and agricultural producers who want to develop their capacity to export to neighboring countries and overseas markets.

c. Sectoral strategies

18. During 1988 the Government of Bolivia will conclude the preparation of its medium-term strategy for economic and social development. This effort, carried out with technical assistance from GTZ, UNDP, and the World Bank (and recently reviewed by a high level seminar), will help establish sectoral priorities which will guide future public investment programs. The Government considers the energy and mining sectors as important sources of growth. While the contribution of these two sectors to employment and GDP is limited, they will contribute importantly to exports and, in the case of hydrocarbons, to public sector revenue. Agriculture, the largest sector in terms of employment and output, should by its gradual reorientation to exports and import substitution also give an increasingly important impulse to growth and to improvement in the balance of payments. The manufacturing sector is expected to recover along more competitive lines, as a result of a more open trade regime. Other sectors, such as transportation, electricity generation, commerce, and finance, will be adapted to support the sectoral strategies of the three primary sectors and manufacturing. The sectoral policies that are presented in greater detail below will need to be adjusted once the Government completes the preparation of its medium- and long-term strategy for economic and social development.

d. Agricultural policy

19. The primary objective of the Government's agricultural policy is to supply foodstuffs to the growing population, while improving the trade balance through efficient import substitution and export growth. The Ministry of Agriculture (MACA) will be strengthened with technical and financial support from the World Bank and other donors in order to provide the policy framework for public sector investments in agriculture and to create the mechanism for the identification and preparation of development programs and the removal of production bottlenecks. In addition, agricultural research, extension and training services need to be developed and appropriate transportation facilities improved. Credit availability to both small and commercial farmers will be enhanced. Wherever possible, private sector participation or leadership will be fostered.

20. In a shift of focus, the Agricultural Bank (BAB) will lend only to small- and medium-sized farmers, devoting at least 75 percent of its lending to small farmers and cooperatives. Production support systems will be developed in order to focus on identification of efficient production technologies, seed development, use of fertilizers, and other methods for improving productivity. Also, MACA will improve provision of extension services, animal health services and appropriate use of fertilizers, possibly through greater reliance on the private sector. Land-use studies will be carried out in an effort to rationalize and consolidate rural settlements. The process of land titling has been speeded up and titling restrictions will be liberalized in order to induce cultivators to farm their land in a more sustainable way and

improve their access to credit. Colonization will be discouraged unless accompanied by measures that would permit sustainable land management, but efforts will be made to consolidate existing settlement projects to maximize benefits.

21. The considerable potential of commercial agriculture, particularly in the lowlands, will be developed. The Government will design projects aimed at improving grain and cold storage facilities, transportation infrastructure, marketing information systems, and the efficiency of wholesale and retail marketing channels. Opportunities for domestic producers also should increase as the Government seeks to reduce Bolivia's reliance on foreign food donations. Also, the Government intends to negotiate improved access for Bolivian agricultural exports to the markets in neighboring countries, Europe, Japan, and the United States. INPEX will play a key role in the provision of information for the expansion of private exports.

22. The Government has made great efforts to reduce coca leaf production. Rural development programs already have been initiated in the valleys of the Yungas and additional programs will be initiated in the Chapare region. These programs, based on the voluntary conversion of coca leaf production to the production of other agricultural crops (but backed up by a serious eradication effort in case of noncompliance), will be accompanied by the creation of marketing channels for alternative crops, extension services directed at both regions and at the areas in which labor engaged in coca cultivation originated, and investment in plant and equipment for the creation of upward linkages to agroindustries.

23. In order to ensure that agricultural production remains efficient, the Government will not interfere with the market determination of agricultural prices. All consumer and producer price supports were eliminated in August 1985 except for Government licensing of sugar imports. The Government intends to phase out this protection of the domestic sugar industry and no price controls will be introduced during the program period.

24. The Government intends to prepare a strategy for handling environmental issues that are likely to be accentuated with the expansion of commercial and small-holder agriculture in the lowlands. Water erosion in the valleys and the piedmont has become severe. Slash-and-burn agricultural techniques are creating problems of severe deforestation, with ensuing difficulties with soil fertility and flooding. Attention also will be given to reforestation, the prevention of indiscriminate forest destruction, environmental effects of road construction, and the impact of road access on tribal peoples and wilderness areas.

e. Mining policy

25. After the sharp reduction of the size of public involvement in the mining sector, the Government's mining policy is designed to encourage

expansion of private activity. The preparatory steps toward implementing this policy were the decentralization and sharp curtailment of the operations of COMIBOL in line with a redefinition of its objectives. Several mines of the decentralized enterprise have resumed operations. It is expected that COMIBOL will become fully operational again in 1988.

26. Both COMIBOL and the private mines will receive technical support and incentives through the reform of both the mining code and the investment law. The authorities also have opened up areas for exploration that previously were reserved exclusively for COMIBOL and the Armed Forces' Development Corporation (COFADENA). As with all sectors of the economy, domestic producers will benefit from the maintenance of stable economic policies, particularly a competitive exchange rate, and investments in transportation facilities to connect most regions of Bolivia with the export corridors. Finally, the transformation of the Mining Bank (BAMIN) into a mixed enterprise will offer new opportunities to the sector.

f. Energy policy

27. The energy sector offers excellent opportunities for growth over the medium term. The Government's efforts will be centered on increasing exports of liquid hydrocarbons, using the established export infrastructure, and exports of natural gas to neighboring countries. Energy policy will be guided by the National Energy Plan, the first phase of which (diagnosis of the sector) was prepared by the World Bank with funding from UNDP.

28. Over the program period, Bolivia intends to diversify and develop domestic and new foreign markets for natural gas and to generate an exportable surplus of crude petroleum. Expansion of the domestic market will center on local distribution facilities in the principal urban areas, power generation, and, if economically viable, the use of compressed natural gas in motor vehicles. A gas pipeline is being constructed with financial support from the Inter-American Development Bank (IDB) from the producing fields around Santa Cruz to the altiplano. An IDA project preparation facility is financing the evaluation of new possible external markets.

29. Discussions also have begun with Brazil on the construction of a pipeline for the proposed sale of natural gas to that country. The World Bank and the IDB are expected to finance much of the work, including analysis of options and project preparation. The Government hopes to start implementation of the project during the program period.

30. Domestic production of petroleum also will be increased. Until recently, growth in domestic supply was hindered, aside from lack of investment funds, by disputes with two foreign-owned petroleum companies operating in Bolivia over payments of certain arrears. These disputes have been resolved and the operations of the companies are expected to increase, especially because the companies are committed to invest in

Bolivia the bulk of the proceeds from the arrears settlement in accordance with the agreements. The Government has opened for exploration potentially rich areas previously reserved for state enterprises. The companies currently operating in Bolivia and other foreign petroleum companies are considering exploration activities in those areas, and Bolivia could become an important petroleum exporter over the medium run. Petroleum output is also expected to increase with the completion of the gas recycling project at Vuelta Grande, which is being financed by the World Bank and the Andean Development Corporation (CAF).

31. In order to ensure the efficient use of petroleum, the Government has raised the domestic price of petroleum products to international levels and will maintain prices at those levels. Amounts of liquified petroleum gas available for export could be further increased as a result of the switching to natural gas by domestic users after completion of the gas pipeline to the altiplano mentioned in paragraph 28 above, and the increase of output of liquified petroleum gas with the completion of the Vuelta Grande project.

32. The state electricity company (ENDE) has initiated the construction of the 220 kV transmission line from Cochabamba to Santa Cruz, to include the Eastern system into the interconnected system. This line is planned to be in operation by 1989; it will allow more efficient use of power generation and of reserve capacity in the system. The Government will prepare with foreign assistance a least-cost expansion plan for the generating and transmission system. This will become the main planning tool in the future.

g. Transportation policy

33. The Government recognizes that maintenance, repair, more efficient operation, and judicious extension of the transportation system are prerequisites for economic growth and export competitiveness over the medium term. During 1987 progress was made in this area. The Government is committed to achieving significant improvements in the transport system during the program period.

34. In light of the severe current budget constraints, the Government will give priority to four areas. The most pressing need is the rehabilitation of existing roads and rail links. The condition of transportation systems is particularly critical in the departments of Cochabamba and Santa Cruz, where a considerable agricultural potential exists. A second priority is the integration of the three main populated areas of the country by paving the still unpaved portions of the La Paz-Cochabamba-Santa Cruz highway. Third, transportation systems along the two main export corridors to the Atlantic and Pacific oceans will be upgraded and efforts will be made to facilitate the international transport of freight. Improving the operation of the rail line from Santa Cruz to Corumba, together with construction of port facilities along the Paraguay River, will give Bolivia lower-cost access to the Atlantic Ocean. Upgrading of rail and road connections between

La Paz and northern Chile also will lower transportation costs. Finally, construction of access roads connecting the main population centers with the lowlands and with navigable rivers will be considered in light of the resources available. Such integration of the northern and northeastern portions of the country would open up areas with potential for petroleum, livestock, forest exploitation, and general agriculture. The Government will work closely with the World Bank in strengthening the public institutions responsible for defining priorities and elaborating these investment plans.

h. Financial sector policy

35. Beyond the credit and interest rate policies outlined in paragraph 9 above, the Central Bank will adopt immediately measures to strengthen its control over financial system credit by monitoring closely the financial position of the domestic banking system. Following the end of hyperinflation, commercial banks became severely undercapitalized as a result of operational and portfolio losses. Concerns about the financial stability of the banking system became acute in 1987 when three commercial banks were forced to close. To avoid a repetition of this situation, the Government intends to adopt measures aimed at reinforcing the institutional structure of the financial system. The Government is reviewing the consistency and appropriateness of the 1928 banking law and its amendments with a view to preparing a new banking law, if necessary. In the meantime, the Superintendency of Banking, which was re-established in November 1987 to take over the supervisory functions from the Central Bank's banking control department, will enforce the observance of stricter regulations with respect to the treatment of interest on nonperforming loans, loan loss provisions, loan concentration, banks' real estate holdings, and minimum capital requirements. In order to strengthen banking supervision, the Superintendency conducted external audits of all commercial banks in 1987, and this information will be used to determine any further measures which may need to be taken. A new program has been devised to rehabilitate banks in financial distress under the Central Bank's supervision as an alternative to their liquidation. The Government will consider the creation of a deposit guarantee fund and a credit guarantee scheme for small farmers and artisans to improve private sector confidence. The Government is taking a positive attitude toward bank mergers to strengthen the financial system, lower borrowing costs for the private sector, and increase the efficiency of the banks. To increase the volume of credit operations, further measures will be considered to lower intermediation costs, minimize distress borrowing, and improve the solvency of the banking system.

36. The efficiency of the state banks is to be increased as part of the Government's efforts to strengthen the financial system. Two of the principal state banks--the Agricultural Bank (BAB) and the Mining Bank (BAMIN)--will be restructured in 1988-89. The BAB will be allowed to accept deposits from the private sector, while the BAMIN will be transformed, as noted above, into a mixed enterprise through the gradual

acquisition of shares by cooperatives and private mines. The State Bank (Banco del Estado) will operate principally with the Central Government and the state enterprises; operations with the private sector will be limited to regions without presence of private commercial banks. Its charter will be revised to define the precise role of the State Bank with respect to public and private banking operations. Finally, the Housing Bank (Banco de la Vivienda) is being liquidated; the newly created National Housing Fund (FONVI) will provide in future up to 20 percent of financing for eligible housing.

37. A number of measures are being considered that will result in the widening of the domestic capital market. Efforts are underway to begin the operations of the national stock exchange. It is hoped that the stock market will gradually assume an important role in capital formation and intermediation. The Central Bank is developing open market instruments; as a first step, certificates of deposit with maturities up to one year began to be issued in late December 1987. By increasing the number of monetary instruments, the Central Bank expects to be able to increase control over domestic liquidity and contribute to the deepening of capital markets.

i. Social impact

38. The economic crisis affecting Bolivia since the beginning of the 1980s has had serious consequences for the welfare of the Bolivian population. As the Government's financial situation worsened, services for low-income groups in rural and urban areas deteriorated sharply. The Government has begun to seek a solution to these problems via measures aimed at improving access to education, health care, clean water, and low-income housing. In the area of education, the objective is to provide basic education and promote functional literacy. An extensive survey of the provision of health care will be carried out to identify measures which would improve those services, particularly safe-motherhood and child-survival programs. The Government would like to transfer the responsibility for education and health services to the departments and municipalities. The transfer would involve establishment of uniform minimum standards for the delivery of these services and transfer of adequate financial resources to the regional and local bodies. In view of political difficulties encountered in obtaining congressional approval for this scheme, the Government is seeking alternative technical solutions on the basis of studies financed by the World Bank. The newly established Social Housing Institute (Instituto de Vivienda Social) will draw up a national housing plan, provide extension services to housing organizations, and evaluate and develop housing projects to be financed by FONVI. The Housing Institute is expected to play an active role in alleviating the severe shortage of adequate housing for low-income groups in both the rural and urban areas. In carrying out its plan the Government will need to avoid the ineffectiveness and inequity of past housing schemes.

39. In the medium term, the reactivation program is designed to improve the living standards of all Bolivians. The resumption of broad-based economic growth through an improved incentive system should result in an increase of employment and income for all groups. However, given the relatively high population growth and the need to increase domestic savings, consumption in per capita terms is not likely to improve rapidly in the near future. The Government has, therefore, established an Emergency Social Fund (FSE) to deal with social problems. The FSE, which is scheduled to operate for three years (after which its remaining projects would be transferred to existing agencies), will allocate 10 percent of its resources to social assistance (e.g., recurrent costs in health and education), 35 percent to social infrastructure (e.g., schools, health posts, sewerage, and housing), 45 percent to economic infrastructure (e.g., road repair, urban improvement, and irrigation), and 10 percent to support for production (e.g., seed capital for rotating funds and credit schemes for cooperatives and micro-enterprises). The World Bank has taken the initiative of supporting the FSE with its own resources and helping to mobilize the assistance of several other donors and creditors.

40. During the program period, social action programs for each ministry and agency will be drawn up aimed at improving the efficiency and focus of social services, e.g., through increasing emphasis on basic health care and education services. In this regard, additional financial support will be sought from both the multilateral agencies (including, in particular, the World Bank and the IDB) and bilateral sources (including U.S. AID and nongovernmental organizations). The World Bank also will provide support to help develop a feasible strategy for the medium term in the areas of health and education.

IV. External Assistance Requirements

41. The implementation of Bolivia's structural adjustment program requires extraordinary efforts by both the Government and the international financial community. Notwithstanding the Government's resolve to adopt appropriate macroeconomic policies and improve economic efficiency, disbursements of concessional foreign assistance will have to increase substantially in order to supplement the expected domestic resource mobilization.

42. In 1987 the current account deficit of the balance of payments was considerably higher than initially projected, largely because of higher imports. In the period through 1991, exports are expected to grow vigorously as a result of the policies described above. However, the current account deficit (excluding official transfers) is expected to decline only modestly in U.S. dollar terms until 1991, as the expected reduction in the trade deficit will be largely offset by a projected increase in net factor payments abroad. Because of the planned real depreciation of the currency, the U.S. dollar value of GDP is not expected to increase in the period through 1991. As a result, the

current account deficit will remain at about 14 percent of GDP during the program period, and interest payments due on the growing external public debt are projected to increase to 5.9 percent of GDP in 1991.

43. It is expected that the current account will be financed to a large extent by loan disbursements from multilateral and bilateral official lenders. In addition, official grants for purposes accorded priority by the Government are expected to increase, reflecting the decision by certain countries to provide assistance to Bolivia increasingly in the form of grants. In 1987 disbursements of external assistance fell short of projected levels, largely reflecting problems of efficient absorption in Bolivia. Official grants, at an estimated US\$107 million, exceeded projections. However, loan disbursements to the public sector are estimated to have reached only US\$212 million, compared with a projected level of US\$315 million. However, this shortfall was compensated by higher than projected short-term capital inflows. For 1988 external assistance flows are projected to increase sharply. Disbursements of official grants are estimated at US\$118 million and those of loans at US\$340 million. About two thirds of the loan disbursements are expected from rising disbursements by the World Bank and the IDB. A projected increase in gross disbursements from bilateral lenders from US\$63 million in 1987 to US\$70 million in 1988 is more than explained by a cofinancing loan from Japan.

44. Gross loan disbursements are expected to decline somewhat to an average of US\$320 million a year in 1989-91. Disbursements from the World Bank are projected at US\$65-70 million a year while disbursements from the IDB and other multilateral lenders are projected to increase somewhat from the level projected for 1988. The IDB and the World Bank will support improvements in public sector management, private enterprise development, diversification of exports, financial sector reform, and investments in the urban sector, transportation, agriculture, energy, mining, health, population, nutrition, education, and water supply. Bilateral loans are projected to slow from US\$83 million in 1989 to US\$60 million in 1990-91, largely reflecting the winding down of the above-mentioned cofinancing operation from Japan. This reduction also reflects the continued switch from loans to grants by some bilateral sources. In order to mobilize additional resources on concessional terms, the World Bank plans to hold annual meetings of the Consultative Group for Bolivia; the next such meeting is envisioned for July 1988.

45. The Government is concerned about the pace of private investment and feels that additional foreign investment is vital for the success of its program. Accordingly, it intends to facilitate the identification of private investment projects for funding by bilateral and nongovernmental agencies. It is expected that the policies described above will help achieve this objective.

46. Bolivia's public debt service burden (excluding the Fund) before rescheduling is expected to decline substantially during the program

period, from 84.2 percent of exports of goods and nonfactor services in 1987 to 44.0 percent in 1991. This reduction is possible only if the bulk of foreign assistance is received on concessional terms and the Government succeeds in transforming a significant portion of bilateral assistance from loans to grants. The authorities have already approached the Paris Club with a request to reschedule maturities falling due after June 30, 1987 on loans contracted before the agreed cutoff date. Argentina has rescheduled Bolivia's arrears and all unmatured principal over 25 years including 15 years' grace. Substantial debt relief also is expected from the renegotiation of debt service still outstanding to banks after the conclusion of the buyback and debt conversion arrangements.

47. With respect to the Fund, Bolivia is expected to receive a three-year arrangement of SDR 136.05 million (150 percent of quota) under the enhanced structural adjustment facility (ESAF) around mid-1988, together with a purchase of SDR 43.1 million (47.5 percent of quota) under the compensatory financing facility. Bolivia's debt service obligations to the Fund will shrink to low levels in 1988 and 1989 because of the small use of Fund resources by Bolivia during the first half of the 1980s. Repurchase commitments will increase again in 1990 as repurchases under the 1986 stand-by arrangement begin to fall due. Under the assumption that all disbursements under the ESAF are made, Bolivia's liabilities to the Fund will reach SDR 207.9 million or 229.2 percent of quota in mid-1991 when the proposed ESAF expires.

Bolivia: External Financing Requirements and Resources

(In millions of U.S. dollars)

| | 1987 | Projections | | | 1991 |
|--|-----------------|--------------|--------------|--------------|--------------|
| | | 1988 | 1989 | 1990 | |
| <u>Requirements</u> | <u>881.0</u> | <u>816.7</u> | <u>750.5</u> | <u>782.6</u> | <u>831.9</u> |
| Current account <u>1/</u> | 575.8 | 606.4 | 614.3 | 567.6 | 589.1 |
| Public debt amortiza- tion <u>2/</u> | 280.5 | 161.2 | 129.5 | 192.9 | 179.2 |
| IMF repurchases | 24.7 | 49.1 | 6.7 | 22.1 | 63.6 |
| <u>Resources</u> | <u>374.8</u> | <u>668.3</u> | <u>568.0</u> | <u>604.9</u> | <u>636.5</u> |
| Official grants <u>3/</u> | 106.8 | 117.6 | 127.5 | 133.9 | 140.5 |
| Long-term loan dis- bursements <u>3/</u> | 212.5 | 340.4 | 321.5 | 312.0 | 328.0 |
| Overdue gas receipts <u>4/</u> | -96.0 | 119.6 | -- | -- | -- |
| Other capital inflows <u>5/</u> | 151.5 | 90.7 | 119.0 | 159.0 | 168.0 |
| <u>Financing gap</u> | <u>506.2</u> | <u>148.4</u> | <u>182.5</u> | <u>177.7</u> | <u>195.4</u> |
| Refinancing and arrears | 342.3 | -- | -- | -- | -- |
| Additional resource requirements <u>2/</u> | -- | 128.9 | 110.8 | 185.7 | 181.7 |
| Use of IMF resources | -- | 122.4 | 61.2 | 61.2 | -- |
| Of which: ESAF | -- | 61.2 | 61.2 | 61.2 | -- |
| Change in gross offi- cial reserves <u>6/</u> (- increase) | 163.9 <u>7/</u> | -102.9 | 10.5 | -69.2 | 13.7 |

Sources: Government of Bolivia; and estimates by the staffs of the Fund and the World Bank.

1/ Excludes official grants.

2/ Excludes arrears to foreign commercial banks.

3/ Projections estimated on the basis of indications on likely commitments by major official bilateral and multilateral sources.

4/ According to an agreement concluded in September 1987 with Argentina, gas arrears outstanding at the end of 1987 must be paid during the first ten months of 1988.

5/ Direct foreign investment, short-term and unidentified capital flows. In 1987, includes gold monetization and net errors and omissions.

6/ Net of liabilities to the Andean Reserve Fund and short-term reserve liabilities. Assumes payment of arrears to foreign oil companies of US\$40 million in 1988 and US\$120 million in 1989.

7/ Excludes the rescheduling of US\$61 million of reserve liabilities owed to Argentina as long-term debt of the Central Government.

Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-91

| Policy Areas | Objectives and Actions | Strategies and Measures | Timetable |
|---------------------------------------|--|---|---|
| 1. <u>External Sector</u> | | | |
| a. Exchange rate policy | (a) Maintain flexible exchange rate | -Conduct foreign exchange auctions | During the entire program period. |
| | | -Maintain unrestricted access to auction market | During the entire program period. |
| | | -Move exchange rate faster than domestic inflation, ensuring, as minimum, the attainment of targets for net official international reserves | Quarterly targets; during the entire program period. |
| b. External trade and payments policy | (a) Maintain liberal trade and payments system | -Avoid introduction of exchange and trade restrictions | During the entire program period. |
| | | -Complete accession to GATT membership | 1989. |
| | (b) Maintain uniform import tariff without duty exemptions | -Lower tariff on imports other than capital goods by 1 percentage point a quarter until reaching a uniform rate of 10 percent in 1990. Maintain uniform tariff thereafter | After 1990, during the remainder of the program period. |
| | (c) Promote export growth and diversification | -Eliminate all remaining import duty exemptions | October 1988 for wheat. |
| | | -Rebate customs duties and indirect taxes to exporters of nontraditional items. | During the entire program period. |
| | | -Lift licensing requirements for sugar imports | End-1990. |
| | | -Provide unsubsidized pre- and post-shipment credit | During the entire program period. |
| | | -Refrain from export quotas and prohibitions | During the entire program period. |
| | | -Maintain competitive freight rates for exports | During the entire program period. |
| | | -Make National Institute of Export Promotion operational | Mid-1988. |
| | | -Simplify export procedures | Mid-1988. |

Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-1991 (Continued)

| Policy Areas | Objectives and Actions | Strategies and Measures | Timetable |
|--|---|---|--|
| c. External borrowing | (a) Restore international credit-worthiness | -Borrow at concessional terms | During the entire program period. |
| | (b) Improve terms of external financing | -Consultative Group meetings | July 1988; annually thereafter. |
| | | -Seek switch of bilateral assistance to grants | During entire program period. |
| | | -Obtain debt relief from official bilateral creditors | Annual Paris Club meetings. |
| (c) Improve debt monitoring | | -Regularize bank debt through buy-back, debt conversion, and renegotiation | 1988. |
| | | -Establish monitoring and control system for external public and publicly guaranteed debt | Mid-1989. |
| 2. <u>Public sector management and efficiency of resource allocation</u> | | | |
| a. Public sector management | (a) Reduce size and improve quality of civil service and state enterprise staff | -Cut public sector employment | During the entire program period. |
| | | -Introduce incentive pay scales for specialists and top-level managers | 1989-91 in phases. |
| | (b) Raise executing capacity | -Reorganize public sector entities and enterprises, in particular the Ministries of Finance, of Agriculture (MACA) and of Planning and Coordination, YPFB, ENDE, ENFE, and the municipalities | During the program period with particular emphasis on MACA and YPFB in 1988. |

Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-1991 (Continued)

| Policy Areas | Objectives and Actions | Strategies and Measures | Timetable |
|----------------------|--|--|---|
| | | -Improve targeting and delivery of efficient social services | During the entire program period. |
| | | -Put in place World Bank staff members seconded to Ministry of Planning to coordinate investment activity and help remove constraints to implementation capacity | Mid-1988. |
| | (c) Improve information flow | -Implement the emergency information and control system as a precursor of the Integrated System of Financial Administration and Government Control (SAFCO) | Mid-1988. |
| b. Public investment | (a) Improve and expand basic infrastructure | -Establish a "core" investment program | 1988. |
| | | -Establish three-year public investment program and review it annually | 1988, with reviews in early 1989, early 1990 and early 1991.* |
| | (b) Improve planning, project screening, and monitoring capacity | -Examine loan commitments and ongoing projects to ensure the attainment of priority objectives | Mid-1988. |
| | (c) Improve aid coordination | -Consultative Group meetings to arrange and coordinate concessional financing | July 1988; annually thereafter. |
| | (d) Improve financing of investment | -Generate after-tax state enterprise savings for local counterpart financing of investment and amortization payments through pricing policy and cost cutting | Annually, during the program period. |

Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-91 (Continued)

| Policy Areas | Objectives and Actions | Strategies and Measures | Timetable |
|-----------------------------|--|---|--|
| c. Private investment | (a) Support increase in private investment, especially in export sectors | -Stimulate investment through flexible prices, collective bargaining, freedom to hire and fire, liberalized access to mineral rights, unlimited profit remittances, investment guarantees, joint ventures in certain areas, infrastructure investment, financial sector reform, and a stable regulatory framework -Revise investment code and mining code and simplify approval procedures -Prepare sector policy statements -Accelerate identification of enterprises for privatization; streamline procedures for privatization including mechanism of debt-equity swaps | During the entire program period. 1988-89. 1988; to be refined and updated during the program period. * 1988. |
| 3. <u>Sectoral policies</u> | | | |
| a. <u>Agriculture</u> | (a) Increase output and productivity | -Reorganize Ministry of Agriculture to play major role in sectoral development | 1988. |
| | (b) Promote exports and efficient import substitution | -Maintain competitive freight rates -Provide export financing -Improve transport infrastructure -Improve research, extension and training services -Ensure input availability -Increase access to credit for small farmers | 1988-91. 1988-91. 1988-91. 1988-91. 1988-91. |

Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-91 (Continued)

| Policy Areas | Objectives and Actions | Strategies and Measures | Timetable |
|--------------|--|--|-----------------------------------|
| | (c) Provide alternatives to coca leaf production | -Provide agricultural credit and complementary services; back up with eradication campaign | 1988-91. |
| | (d) Raise farm income | -Give integrated support for smallholder agriculture | 1988-91. |
| | (e) Improve commercial farming | -Improve marketing channels, provide grain and cold storage facilities, strengthen marketing information systems | 1988-91 |
| b. Mining | (a) Increase mining production, particularly of nontin minerals | -Restore the reorganized and downsized COMIBOL to full operation | Mid-1988. |
| | | -Revise mining code and investment code | 1988. |
| | | -Implement the mining tax system | During the entire program period. |
| | | -Maintain competitive freight rates | 1988-91. |
| | | -Support geological work and exploration activities | 1988-91. |
| | | -Initiate new investments, including joint ventures | During the entire program period. |
| | | -Improve refining activities of ex-ENAF | Mid-1988. |
| c. Energy | (a) Increase production of crude petroleum, domestic consumption of natural gas, and exports of hydrocarbons | -Complete gas recycling project at Vuelta Grande. | 1988. |
| | | -Complete gas pipeline to altiplano | 1988. |
| | | -Set domestic prices so as to conserve energy | During the entire program period. |
| | | -Transfer part of YPFB retailing and distribution operations to the private sector | 1988. |
| | | -Begin conversion to gas utilization in the altiplano | 1988. |

Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-1991 (Continued)

| Policy Areas | Objectives and Actions | Strategies and Measures | Timetable |
|--------------|---|--|--|
| | (b) Increase exploration to reverse the decline in hydrocarbon reserves | -Present to Congress new hydrocarbon legislation with expanded possibilities for joint ventures -Pay arrears to petroleum companies -Seek agreements with foreign companies to promote joint ventures | December 1988. * 1988-89. 1988-91. |
| | (c) Lower the dependence on gas exports to Argentina | -Analyze options for a gas export agreement with Brazil with help from the World Bank and other potential cofinanciers. -Negotiate gas export agreement with Brazil | 1988. 1988. |
| | (d) Improve the efficiency of electricity generation and distribution | -Improve the distribution of electricity by linking Santa Cruz to the national network and revise pricing policy | 1988-89.* |
| d. Transport | (a) Create efficient export corridors | -Rehabilitate, modernize, and expand road and railway system with priority for export corridors (Santa Cruz-Corumba railroad, river transportation to Atlantic ports, rail and road links to Chile and Peru). -Improve management of the railroad, particularly on the Santa Cruz-Corumba segment, possibly with the assistance of an outside management team and the privatization of certain rail operations. | 1988-91. 1988-91. |

Table . Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-1991 (Continued)

| Policy Areas | Objectives and Actions | Strategies and Measures | Timetable |
|-------------------------|--|---|-----------------------------------|
| | (b) Promote national integration | -Continue the construction of the national road system linking the main population centers of Bolivia to the fertile lowlands, the navigable rivers, and the export corridors | 1988-91. |
| | | -Repair and maintain roads | 1988-91. |
| 4. <u>Fiscal policy</u> | (a) Raise tax revenue while lowering the dependence on the hydrocarbon sector | -Implement the emergency tax program | Mid-1988 |
| | (b) Rationalize expenditure so as to make room for investment, social spending, and domestic arrears reduction | -Limit expenditure through improved budgeting and expenditure control procedures | 1988-91. |
| | (c) Reduce nonfinancial public sector deficit | -Avoid subsidies | During the entire program period. |
| | | -Maintain tight wage policy | During the entire program period. |
| | | -Introduce special pay scale for qualified personnel | 1989-91 in phases. |
| | | -Provide for well-targeted social spending, especially education and health | 1988-91, with annual review. |
| | | -Limit overall deficit to below available foreign financing | 1988-91. |

Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-1991 (Continued)

| Policy Areas | Objectives and Actions | Strategies and Measures | Timetable |
|-----------------------------------|---|--|--|
| 5. <u>Financial sector policy</u> | | | |
| a. <u>Institutional reform</u> | (a) Reform banking law | -Work on eliminating the inconsistencies between the 1928 banking law and its many amendments to provide a basis for a new banking law. | 1988-89. |
| | (b) Reform the role of the Central Bank in the resource allocation process | -Create central bank open market instruments -Enforce prompt repayment of advances to state enterprises. | 1988. During the entire program period. |
| | (c) Rehabilitate state and private banks | -Implement reform of the Banco Agrícola, Banco Minero, and Banco del Estado -Liquidate the Banco de la Vivienda -Make the national securities exchange operational | 1988. ** 1988. 1991. |
| | (d) Simplify accounting and transactions in the economy | -Improve the functioning of the interbank money market -Improve the Central Bank's accounting system | During the program period. 1988-91. |
| b. <u>Interest rate policy</u> | (a) Increase domestic resource mobilization while encouraging lower real lending interest rates | -Maintain market determination of interest rates | During the entire program period. ** |
| | (b) Improve efficiency of intermediation via lower spreads | -Permit banks to fulfill legal reserve requirements in part with interest bearing certificates of deposits | 1988. ** |
| c. <u>Credit policy</u> | (a) Reduce extension of credit to public sector | -Limit credit to public sector | 1988-91. |

Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-1991 (Continued)

| Policy Areas | Objectives and Actions | Strategies and Measures | Timetable |
|--------------------------------|---|---|-----------------------------------|
| 6. <u>Social sector policy</u> | (a) Alleviate poverty effects of the economic crisis | -Implement action plans for the social ministries (including employment programs) to improve efficiency, target programs, and assure budget allocations | 1988-91. |
| | | -Implement targeted work programs through the Emergency Social Fund to alleviate the social cost of adjustment | 1988-89. |
| | | -Monitor the poverty impact of the economic crisis | During the entire program period. |
| | (b) Promote human resource development in the health area | -Improve programming, budgeting, and implementation capacity of central unit and decentralized regional authorities | 1988-91. |
| | | -Establish a safe motherhood and child survival program within a basic health-care package | 1988-91. |
| | | -Increase access to family planning services | 1988-91. |
| | | -Target nutrition surveillance, food supplementation and growth monitoring | 1988-91. |
| | | -Increase resource mobilization through cost recovery and promotion of private voluntary agencies | 1988-91. |

Bolivia: Summary and Timetable of Implementation of Principal Policy Measures, 1988-1991 (Concluded)

| Policy Areas | Objectives and Actions | Strategies and Measures | Timetable |
|--------------|---|---|-----------|
| | (c) Promote human resource development in the area of basic education and functional literacy | -Improve programming, budgeting, and implementation capacity of central unit and decentralized regional authorities | 1988-91. |
| | | -Put a cap on public resources for post-secondary education and increase allocations for educational textbooks and materials and for qualified teachers willing to serve in rural areas | 1988-91. |
| | | -Rehabilitate existing school facilities | 1988-91. |
| | | -Encourage private initiative in functional literacy and adult education | 1988-91. |
| | (d) Protect the environment | -Develop a strategy to handle conservation issues related to the opening up of undeveloped areas, resettlement, road penetration, and mineral and oil exploration | 1988-91. |
| | | -Examine the adequacy of the legal framework for dealing with environmental issues | 1988-91. |
| | | -Strengthen institutions in charge of the environment, including a national conservation/forest reserve system, mapping, and training of appropriate personnel | 1988-91. |

* Refers to measures already incorporated in agreements with IDA.

** Refers to measures incorporated in the proposed IDA Financial Sector Adjustment Credit.

