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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON THE PROPOSED IFAD CONTRIBUTION TO

THE REPUBLIC OF BOLIVIA

UNDER THE

HEAVILY-INDEBTED POOR COUNTRIES DEBT INITIATIVE



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CURRENCY EQUIVALENTS

Currency Unit	=	Boliviano (BOB)
USD 1.00	=	BOB 5.35 (December 1997)
BOB 1.00	=	USD 0.187

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

CAF	Andean Development Corporation
ESAF	Enhanced Structural Adjustment Facility
HIPC DI	Heavily-Indebted Poor Countries Debt Initiative
IDA	International Development Association
IDB	Inter-American Development Bank
IFI	International Financial Institution
IMF	International Monetary Fund
NPV	Net present value

GOVERNMENT OF THE REPUBLIC OF BOLIVIA

Fiscal Year

1 January - 31 December



REPUBLIC OF BOLIVIA

HEAVILY-INDEBTED POOR COUNTRIES DEBT INITIATIVE

FINANCING SUMMARY

INITIATING INSTITUTION:	International Development Association (IDA) International Monetary Fund (IMF)
RECIPIENT:	Republic of Bolivia
TOTAL INTERNATIONAL FINANCIAL INSTITUTION (IFI) CONTRIBUTION:	USD 291.0 million (net present value (NPV))
AMOUNT OF IFAD CONTRIBUTION:	SDR 2.2 million NPV (equivalent to approximately USD 3.1 million NPV)
TERMS OF IFAD CONTRIBUTION:	Grant
HIPC DI COMPLETION POINT:	September 1998
COFINANCIERS:	Andean Development Corporation (CAF) Inter-American Development Bank (IDB) IDA IMF Other IFIs
AMOUNT OF COFINANCING: (in NPV terms)	CAF: USD 39.0 million IDB: USD 155.0 million IDA: USD 54.0 million IMF: USD 29.0 million Other IFIs: USD 11.0 million



**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON THE PROPOSED IFAD CONTRIBUTION TO
THE REPUBLIC OF BOLIVIA
UNDER THE
HEAVILY-INDEBTED POOR COUNTRIES DEBT INITIATIVE**

I submit the following Report and Recommendation on a proposed financial assistance to the Republic of Bolivia, constituting a contribution of SDR 2.2 million net present value (NPV) (equivalent to approximately USD 3.1 million NPV) to reduce the net present value of Bolivia's debt to IFAD under the Heavily-Indebted Poor Countries Debt Initiative (HIPC DI).

PART I - HEAVILY-INDEBTED POOR COUNTRIES DEBT INITIATIVE

1. **Background of IFAD involvement.** In December 1996, the Executive Board proposed IFAD's participation in the International Monetary Fund (IMF)/World Bank-led HIPC DI as an element of IFAD's broader policy framework for managing operational partnerships with: (a) countries that have arrears with IFAD; or (b) countries that face the risk of having arrears in the future because of their debt-service burden¹. The Executive Board endorsed the principle of IFAD's participation in the HIPC DI, and forwarded the proposal to the Governing Council². During its Twentieth Session, the Governing Council approved IFAD's participation in the HIPC DI (Resolution 101/XX, adopted on 21 February 1997), and delegated further approval authority to the Executive Board. The Executive Board of December 1997 considered an operational framework for IFAD's participation in the HIPC DI, including a proposal to establish an IFAD Trust Fund for the HIPC DI³. The Executive Board endorsed the proposed operational framework and the IFAD Trust Fund, forwarded the proposal to the Governing Council and recommended the adoption of the proposed resolution. The Twenty-First Session of the Governing Council adopted Resolution 105/XXI on the establishment of the IFAD HIPC DI Trust Fund (11 February 1998).

2. IFAD has approved debt-reduction assistance to two countries under the HIPC DI: Uganda (September 1997) and Burkina Faso (December 1997). This assistance, respectively, amounts to: (a) DR 4.16 million NPV, equivalent to approximately USD 5.67 million NPV, and representing 21% of the accumulated debt owed by Uganda to IFAD; and (b) SDR 1.78 million NPV, equivalent to approximately USD 2.56 million NPV, and representing 1.98 % of the accumulated debt owed by Burkina Faso to the Fund.

¹ IFAD's Policy Framework for Managing Partnerships with Countries in Arrears (document EB 96/59/R.73).

² IFAD's Participation in the Debt Initiative for Heavily-Indebted Countries (document GC 20/L.6).

³ Proposed Involvement of the Fund in the Debt Initiative for Heavily-Indebted Poor Countries (HIPC DI): IFAD's Operational Policy Framework (document EB 97/62/R.7).



3. **Objective and principles of the HIPC DI.** The overall objective of the HIPC DI is to develop and implement a comprehensive and consistent framework for reducing the accumulated external debt of about 22 (heavily-indebted and poor) countries with **unsustainable** or possibly **stressed** levels of debt. The initiative entails coordinated action by the international financial community to reduce the debt of these countries which pursue IMF and World Bank-supported structural adjustment and economic reform programmes, but for whom even the full application of traditional debt-relief mechanisms are insufficient. The target is to reduce the individual debt of these countries to a level that will no longer compromise their ongoing economic reform programmes and social development and poverty eradication efforts. The guiding principles of the HIPC DI include that it must: (a) address a country's total debt sustainability with a reliable exit strategy and involve all creditors in order to be effective and equitable; (b) assist only countries with a track record of economic policy and structural reform, and that are making efforts towards poverty eradication; (c) build on the existing mechanisms of debt relief; (d) preserve the financial integrity of the international financial institutions (IFIs) involved; and (e) secure a continued flow of new external financing on appropriately concessional terms from IFIs and from the private sector.

4. **Overall justification.** The Governing Council resolution established the link between the sustainability of debt and the sustainability of poverty eradication efforts as the main rationale for IFAD's involvement in the initiative. This rationale and justification include the following considerations: (a) debt is a key problem that has to be addressed if poverty alleviation is to occur and the HIPC DI offers a comprehensive policy framework for accomplishing this; (b) participation will enable IFAD to be part of a system with the potential to address the arrears issue; and (c) participation will enable IFAD to be part of a policy dialogue process for monitoring poverty-related parameters of structural adjustment performance. In practical terms, and for an individually eligible country, the overall debt-relief package to be provided by the international financial community, under the leadership of IMF and the World Bank, is expected to: (a) effectively reduce the country's external debt burden, i.e., up to sustainable levels; and (b) free national budgetary resources so as to broaden the scope of the country's development efforts, while explicitly facilitating an increase in public investment in social sectors and poverty eradication.

5. **Country eligibility.** Eligibility for country participation in the HIPC DI is based on: (a) the country's poverty status, estimated on a per capita income basis, which makes the country eligible for borrowing on International Development Association (IDA) terms, participating in the IMF's Enhanced Structural Adjustment Facility (ESAF), and borrowing on IFAD's highly concessional terms; (b) a satisfactory record of structural adjustment and economic management and social development actions, for instance over the past three years; and (c) the unsustainability of the country's debt burden, as established by high debt-to-export and debt service-to-export ratios.

6. **IFAD participation.** IFAD has committed itself to participate in the HIPC DI on a country-by-country basis for eligible Member States that meet country-eligibility criteria. Moreover, the main issues IFAD will address during the preparation of each specific HIPC DI proposal are: the country's policy focus on poverty eradication; the strength of the country's poverty eradication and rural development programme; and the sensitivity to poverty eradication of the ongoing structural adjustment efforts. The purpose of this document is to propose IFAD's participation in the HIPC DI for Bolivia, the first country in Latin America to qualify for the debt-reduction programme (and the second HIPC DI country after Uganda).

PART II - THE HIPC DI FOR BOLIVIA

A. Preparations for the Bolivia HIPC DI

7. **Creditors' consultations.** Early in 1997, the staff of IDA and IMF initiated consultations with Bolivia's multilateral creditors and with the Paris Club regarding the actions these creditors will take under the HIPC initiative for Bolivia. On 24-25 March 1997, IDA organized a meeting with multilateral institutions to explain the Debt-Sustainability Analysis Methodology, its data requirements, and recommendations for the debt programmes for the first group of HIPCs, including Bolivia. Subsequently, on 15-16 September 1997, IDA organized the fourth of these meetings of multilateral development banks to update participants on the debt-sustainability methodology and on the recommendations for firm early cases of HIPCs. IFAD was present in these meetings of multilateral development banks and financial institutions. The IMF and IDA staffs worked in close consultation with the staff of the Inter-American Development Bank (IDB) on preparation of the debt-sustainability analysis. They have also communicated on several occasions with the Andean Development Corporation (CAF) staff, a subregional multilateral creditor that has substantive claims on Bolivia at commercial terms. The IDA staff contacted all other (international and regional) multilateral creditors, including the Financial Fund for the Development of the River Plate Basin and IFAD.

8. **Preliminary documentation.** Discussions were held in the IDA and IMF Executive Boards on the preliminary HIPC initiative documents (15 and 17 April 1997, respectively). The Executive Directors agreed that Bolivia should be eligible for assistance under the HIPC DI, in view of the country's stressed level of debt and its continued structural reform actions over an extended period of time. Directors of IMF expected that understanding on the scope of the third-year annual programme under the ESAF could be concluded by the proposed decision point of September 1997. Most directors of both institutions supported a completion point of one year after the decision point.

9. **Agreements.** In May 1997, the Board of IDB — the principal multilateral creditor for Bolivia — agreed that the country was eligible for relief under the HIPC DI. At that time, a majority of IDB Board members supported both defining a completion point of one year after the decision point and setting a target ratio of 225% for the present value of debt-to-exports. In meetings held on 9-10 September 1997, the Executive Boards of the World Bank and the IMF, respectively, agreed that Bolivia qualifies for debt-reduction assistance under the HIPC DI. At the same time, the Boards approved: (a) a decision point of September 1997; (b) a shortening of the second performance observation period to one year after the decision point, for a completion point in September 1998. This period was conditional on continued satisfactory implementation of the adjustment and economic reform programme; and (c) a target of debt-to-exports ratio of 225% NPV, which will suffice to ensure debt sustainability⁴.

B. Rationale for the Bolivia HIPC DI

10. **National income.** The HIPC DI for Bolivia and IFAD's participation in the debt-relief programme for this country are justified on all primary accounts of eligibility. First, the country's per capita income is the lowest in South America: its per capita GNP amounted to barely USD 1 000 in 1997. Bolivia is an IDA-only borrower, benefits from IMF's ESAF support and is eligible for IFAD's lending at highly concessional terms.

⁴ Bolivia - Final Document on the Initiative for Heavily-Indebted Poor Countries (HIPC), prepared by the staffs of IMF and IDA, in collaboration with the staff of IDB (27 August 1997).



11. **External debt.** Second, the country is faced with a large external debt that has been assessed as of a **stressed** nature. Bolivia's overall external (public and publicly guaranteed) debt as of the end of 1996 reached USD 3.3 billion (in present value terms). The country's debt-to-exports ratio is of the order of 270% NPV (three-year average as of the end of 1996). Consequently, the country faces dramatic debt-servicing conditions such as a debt service-to-exports ratio of 26% NPV (1996).

12. **Structural and economic policy reform.** Third, the government of Bolivia is committed to continue executing a disciplined programme of economic policy reform. In fact, since 1985, Bolivia has established a track record in implementing macroeconomic stabilization and structural reform programmes, supported by IDA, IMF, IDB and other external agencies. Before Bolivia embarked on this reform programme, it faced serious macroeconomic management problems, most of which originated from the central and pervasive role of the state in most areas of economic activity. These problems included high public-sector deficit, uncontrolled inflation and large external debt and payments arrears, leading to substantial reductions of the country's GDP in real terms. Bolivia has implemented a comprehensive programme of structural reforms, which, *inter alia*, include the lifting of price and interest rate controls; a comprehensive tax reform; public-enterprise restructuring; liberalization of the exchange and trade system; the closure of all state-owned banks; the approval of mining and hydrocarbon-investment laws that permit joint ventures in these sectors; the capitalization of various major public enterprises; education reform; the 1996 pension reform that privatized the pension system in mid-1997; and popular participation and administrative decentralization initiatives that transferred key responsibilities (including a significant share of expenditures) from central to local governments. It is in recognition of these achievements that the lead HIPC DI multilateral agencies agreed on an accelerated completion point for the delivery of the debt-reduction package of one year from the decision point of September 1997.

13. **Social development and poverty reduction programmes.** Fourth, the Government's structural measures have been supplemented by policies aimed at improving social conditions in Bolivia. While social spending by the public sector increased substantially in relation to GDP between 1986 and 1996, the Emergency Social Fund was also established in 1987 to cushion the effect of the stabilization programme. The educational reform that began in 1991 aimed to raise the average educational level of the population; and the Ministry of Human Development was reorganized in 1993. In the past year, the Government initiated several new social sector programmes, including the Mother and Child Insurance Programme and the establishment of technical teams to develop a comprehensive health-sector reform and a comprehensive policy for early childhood education. Social indicators have generally improved over the past two decades, reflecting these efforts as well as the effect of steady economic growth in the past decade.

14. **Debt management.** Fifth, while the Government has been servicing regularly its debt obligations with IFAD, it is the risk of future arrears — because of its overall heavy debt-service burden — that may jeopardize the completion of key structural reforms and the expansion of rural poverty actions. In view of the several IFAD loans that have been approved so far, and the expected increase in debt-servicing requirements as grace periods expire, the risk of Bolivia falling under arrears is a primary concern of IFAD.

15. **Support to and reliance on IFAD.** Finally, Bolivia has consistently supported IFAD's resource replenishment programmes, as evidenced by the country's contributions to the Third and Fourth Replenishments. Reciprocally, the country has borrowed substantially from IFAD in order to execute eight investment projects in the context of an evolving rural development strategy. In sum, the debt relief package that will be provided under the initiative is expected to reduce the country's external debt burden, while effectively freeing national budgetary resources to broaden the scope of the country's development efforts. Moreover, the financial contribution from IFAD to Bolivia's HIPC



DI will specifically facilitate maintaining a positive cash flow to the country in the context of the ongoing project portfolio.

C. Economic Context, Agricultural/Rural Sector and Poverty Situation

16. **Economic context.** Bolivia, a land-locked country located in the centre of South America is among Latin America's poorest countries with a population of 7.9 million and a GNP per capita of about USD 1 000. Based on the United Nations Development Programme's Human Development Index, Bolivia ranks 113th of 174 countries world-wide. This ranking results primarily from the very low income of the majority of the population, especially in the rural areas, the low life-expectancy at birth and the low educational level of the population. According to the FAO classification on food security, Bolivia is a low-income food deficit country. The country's debt burden is large (over USD 4.64 billion in nominal terms), and its servicing demands put a serious strain on the economy. Over 26% of export revenues were utilized to service the external debt in 1996. While agriculture has been traditionally the most important economic sector, concerns have arisen that a marked dual economy is developing, with the technologically advanced agricultural, hydrocarbons and mining industries of the eastern lowlands having few links with the impoverished and backward central highlands. The true size of the Bolivian economy is difficult to assess because of its very large informal sector and above all the existence of the coca sector. Although agriculture accounts for approximately 15% of GDP, agricultural production methods remain primitive in the central highlands, the same sector employing over 40% of the labour force. Manufacturing accounts for another 15% of GDP, but most is labour-intensive and small-scale. The extraction of minerals and hydrocarbons accounts for a further 10% of GDP. However, these latter extractive activities play a much greater role in exports, generating over 50% of earnings in 1996. Primary exports include: zinc, gold, natural gas, oil and timber. In the absence of widespread industry, and its overall current level of structural transformation (e.g., sectoral distribution of the labour force), Bolivia remains a rural country with unsolved rural infrastructure deficiencies.

17. **Economic policy and economic governance reforms.** Before the adjustment effort began in September 1985, the state played a central role in the production of most goods and services, particularly in the mining and hydrocarbons sectors, and accounted for approximately one-quarter of non-agricultural employment in 1984. There were highly distortionary pricing policies in effect, in addition to credit rationing and controlled interest rates, as well as extensive exchange and trade restrictions. Macroeconomic management had become increasingly unstable, with a sharp increase in the overall public sector deficit (28% of GDP in 1984), mostly financed by money creation as external financing had dried up. Inflation reached 23 500% in September 1985, making it impossible for the economy to generate real savings and investments. Consequently, there was a regressive redistribution of income, where most wage earners and the majority of rural producers suffered a significant decline in purchasing power. In 1985, Bolivia initiated profound economic and political reforms under its New Economic Policy (NEP) programme. The far-reaching programme of macroeconomic stabilization and structural reforms has for the most part been successfully implemented, although growth has remained modest, averaging about 4% in the period 1991-1996. The reform programme has been continuously supported by IMF programmes and IDA adjustment assistance, including two three-year ESAF arrangements (1988 and 1994).

18. The Government initiated the implementation of a second generation of reforms in 1993, including the reform of the constitution, a popular participation process, administrative decentralization, the capitalization of state-owned companies, the reform of the pension system, and educational and land reforms. Among these economic policy and institutional reforms, the Law of Popular Participation (1994) incorporates potentially about 40% of the population in the country's decision-making processes and public-resource allocation. This law recognizes the existence of different forms of social organization and introduces the concept of equity in the distribution of fiscal



resources. The Law of Administrative Decentralization (1994) assigns to departmental prefectures key responsibilities — previously held by central authorities — in regional planning, infrastructure construction and maintenance, and the management of health and education services. The new Land Reform (1996) creates a new framework to improve land tenure access and security for peasants and indigenous peoples.

19. **Agricultural/rural sector and natural resources.** Bolivia is the fifth-largest country in South America, but just over 2% of the land is cultivated; one-quarter is given over to pasturage, half remains forested and the rest is useless for most forms of agriculture. Bolivia's agricultural sector consists of two distinct agroeconomic and agroecological subsystems: the small farmer subsistence economy of the *Altiplano* and valleys, and the commercial agriculture economy (cash crop and export-based) of the eastern lowlands. Since the 1950s, a large migration process has taken place from the former to the latter region. With the exception of the eastern lowlands (where Soya production is the main driving force), the sector is severely constrained by low levels of mechanization and investment and poor infrastructure. The sector suffers both from institutional and operational weaknesses of public agencies involved and from insufficiently planned and poorly targeted agricultural research and extension programmes. Agricultural production is also characterized by increasing land constraints in the highland — due to demographic expansion — leading to uncontrolled migration to the lowlands. Land ownership in the lowlands is dominated by extensive *latifundia*. In addition, the extremely rugged topography of the country, and the absence of an adequate infrastructure network hamper the delivery of services and the communication to the remote and isolated indigenous communities. The country contains rich metal deposits such as silver, tin and gold, and significant petroleum and gas deposits. The use of primitive technology in subsistence farming and the uncontrolled illegal exploitation of Bolivia's forests are causing serious environmental degradation.

20. **Rural poverty situation.** Despite the progress achieved in policy reform, most social and poverty indicators in Bolivia remain weaker than the average for Latin America. They are close to levels observed in sub-Saharan Africa. Social conditions are especially acute in rural areas, where 90% of the population still lives in poverty (Appendix I). Most of the Bolivian population (urban and rural) consumes less than the recommended amount of calories, and chronic malnutrition affects about one-third of the total population. Of the approximately 3 million people that live in rural areas, over 90% have no access to basic social services (education and health) and essential infrastructure (housing, water and sanitation). Similarly, about 90% of people in the countryside live under poverty conditions, most of whom are considered to suffer from extreme poverty. These poor belong to peasant households, with limited access to productive land and limited opportunities in the labour market.

21. **Development strategy.** According to the Government, the major challenge for the 21st century is poverty reduction. The country's present development strategy seeks to achieve accelerated economic growth and its more equitable distribution; along with tangible improvements in levels and quality of social services in order to elevate the standard of living for the majority of Bolivians. This includes direct poverty-alleviation programmes, comprising actions to develop human resources in rural areas. The main elements of the Government's plans are: (a) promoting increased economic growth, with the private sector playing a greater role in economic activities; (b) giving priority to the social sectors and rural development in the allocation of public expenditures; (c) facilitating the consolidation of a decentralized, smaller, and more modern state, particularly through improving the capacity of departmental and municipal governments that have an increased role through popular participation and administrative decentralization; and (d) assuring a sustainable management of the country's natural resources. A key ingredient in this strategy is debt reduction, and the resulting new funding that could be allocated in this manner for social projects and urban and rural infrastructure. The Government's strategy for the structural transformation of agriculture aims at the introduction of

new productive technologies, the construction of rural infrastructure and the development of human resources in rural areas, and other rural poverty eradication actions. It should benefit from this funding.

D. External Debt Status

22. **Total external debt.** At the end of 1996, Bolivia had a total external (public and publicly guaranteed) debt of USD 4.6 billion (nominal terms), equivalent to USD 3.3 billion NPV. Debt owed to multilateral institutions amounted to USD 3.0 billion (nominal terms) (equivalent to USD 2.2 billion NPV, or 64.3% of the NPV total); debt to official bilateral creditors amounted to USD 1.6 billion (nominal terms) (equivalent to USD 1.2 billion NPV or 35.4% of the total); and debt to commercial creditors (short-term credit) amounted to USD 11.0 million, equivalent to 0.3% of the total. Bolivia's external debt is projected to rise to USD 3.5 billion by the end of 1998.

23. **Multilateral debt.** IDB is the largest creditor among IFIs, accounting for USD 1.2 billion NPV, which is equivalent to: (a) 34% of Bolivia's total external public and publicly guaranteed debt (in present value terms) as of the end-of 1996; and (b) approximately 53% of multilateral debt as of the end of 1996. Similarly, debt owed to IDA totalled USD 402 million NPV (19% of multilateral debt); debt to IMF amounted to USD 215 million NPV (10% of IFI's debt). Another major multilateral creditor is CAF, accounting for about USD 289 million, or approximately 9% NPV of Bolivia's total public and publicly guaranteed debt as of the end of 1996. This amount is equal to about 13% of the debt owed to multilateral creditors, all of which has been borrowed at commercial rates. CAF is disposed to participate in the HIPC DI, and is exploring specific modalities that preserve the financial integrity and relations with its shareholders and international capital markets. The total outstanding debt to IFAD stood at USD 23.1 million NPV as of the end of 1996.

24. **Bilateral debt.** Bolivia's debt to official bilateral institutions amounted to USD 1.2 billion NPV, of which the debt to Paris Club creditors was estimated at USD 1.1 billion NPV as of the end of 1996. This represents close to one-third of the total external debt and approximately 97% of bilateral debt. As of the end of 1996, Bolivia's debt to Non-Paris Club creditors stood at USD 38.0 million NPV, equivalent to 3% of bilateral debt. The principal creditors of the latter group are China, Taiwan and Brazil.

25. **Debt-sustainability analysis.** Bolivia's debt-to-exports ratio (calculated as a three-year average at the end of 1996, and expressed in present value terms) was estimated at 270%; and the country's debt service-to-exports ratio at 26% (1997-98). Bolivia is among the least vulnerable of a reference group of 24 heavily-indebted poor countries, but this less vulnerable position partly reflects that Bolivia is among the most advanced of these countries in the structural and economic reform process. Nevertheless, Bolivia's external sector still remains vulnerable to exogenous shocks. For example, metal exports still account for 40% of Bolivia's exports, and a repeat of the significant decline in the world price of metals that the country has experienced twice since 1985 will push Bolivia's external debt and debt-service outlook back into a difficult position. Bolivia also has a substantial stock of private non-guaranteed external debt, which makes it more vulnerable to fluctuation in world financial markets than most HIPCs.

26. In addition, the burden of external debt service over the next few years for Bolivia is high. Total service on public and publicly guaranteed debt (prior to any relief under the HIPC initiative) is projected to rise from USD 334 million (25.4% of current year exports) in 1996 to USD 390 million (27% of current year exports) in 1998, and to USD 399 million (25.5% of exports) in 1999. While most of Bolivia's outstanding debt to IFAD is of a highly concessional and long-term nature (1999-2037), heavy payments owed to IFAD are concentrated over the next five years.



E. The IFAD Programme in Bolivia

27. **IFAD's involvement and strategy in the country.** Between 1979 and 1997, eight IFAD loans were approved for Bolivia totalling approximately SDR 54.7 million (equivalent to USD 69.2 million). Three of these loans have been awarded on intermediate lending terms, and the other five on highly concessional terms. Three of these loans have been closed and the other five are ongoing. (Appendix II). The Fund's project portfolio originated from two IFAD Special Programming Missions, which proposed strategies and action plans towards the significant reduction of rural poverty and the improvement of food security. IFAD activities in the country have focused on rural development (four projects), rural settlement support (one project) and the integrated development and promotion of camelid producers (meat, leather, fibre) (one project). Two recent projects focus on demand-driven approaches to rural extension and technical assistance. Specific project components and activities of IFAD-financed investment, *inter alia*, comprise: (a) rural road development, to improve marketing prospects; (b) small-scale irrigation schemes, to reach smallholder agriculture; (c) credit/rural financial services and agricultural/rural development extension services, based on the results of targeted applied research; and (d) training and technical assistance, for both the Government's rural development entities and farmer and indigenous organizations. The conventional credit activities of the earlier projects have been replaced by innovative community-based investment funds and technology-transfer funding accounts. IFAD's investment activities focused initially on the western region of the country, and later on providing support to the Fund's target groups in the rapidly colonizing agricultural lowland frontier.

28. In addition, Bolivia has benefited from its share of three regional technical assistance grants: *Regional Training Programme*; *Programme for the Support of Indigenous Peoples in the Amazon Basin*; and the *Regional Support Programme for the Development of South American Camelids*, whose second phase was approved in December 1996. These last two are based in La Paz, Bolivia. In 1996, IFAD also approved two grants under the IFAD/NGO Extended Cooperation Programme (ECP): one in the amount of USD 42 000 for the *Centro de Estudios y Proyectos Asociativos (CEPA)*; and another in the amount of USD 60 000 to finance the *Peasant Management Programme in the Department of Santa Cruz*.

29. IFAD's intervention strategy in the country is being enhanced through dialogue maintained by the Fund's new country strategy opportunities paper. It responds to the most relevant structural and institutional changes and to the new constraints and opportunities being faced by smallholders, landless, indigenous groups and other target groups. The Government and IFAD understand that ongoing and future assistance to the country — inclusive of the Fund's expected contribution to Bolivia's HIPC DI debt-reduction programme — is an essential contributing element in facilitating the radical change that the Government intends in its intervention approach in the rural areas. The Government is seeking to adopt a participatory, decentralized and market-based approach to rural development in substitution of the traditionally vertical, assistance-oriented and centralized approach. Thus, IFAD's forthcoming investment resources will continue to focus on innovative approaches for beneficiary participation planning, land-reform promotion among the Fund's target groups and overall community-based intervention programmes.



PART III - THE BOLIVIA HIPC DI PROGRAMME

30. **Objective of the proposed assistance.** With the proposed debt reduction, IFAD will support the implementation of the Government's economic and social programme for poverty reduction as spelled out in the country's Policy Framework Paper (1997-1999) and outlined in the final HIPC DI document and in this report. IFAD's debt relief is provided under equitable burden-sharing arrangements in conjunction with IDB, CAF, IDA, IMF and other creditors, allowing Bolivia to reach a sustainable external debt position by the completion point. Consequently, overall debt relief under the HIPC DI will free-up fiscal resources to help accelerate the process of structural economic reform/management. It will support — with explicitly incremental budgetary resources — the strengthening of social expenditure in the critical areas of education, health and poverty alleviation. Specifically, debt relief, together with the agreed-upon structural reforms, will improve the composition of government expenditures in order to permit larger outlays in the social sectors and in essential infrastructure. Without HIPC relief, the Government will need to sell more domestic debt, raise taxes even more than presently contemplated, slow spending, including that on social programmes or relax the anti-inflation effort. Moreover, the proposed IFAD contribution should guarantee the timely provision of counterpart funding in the context of the ongoing project portfolio.

A. Policy Reform Commitments and Conditions

31. **Structural reform/economic management.** The delivery of debt relief at the completion point will be contingent on the actions specified in the final HIPC DI document (detailed in Appendix III). A key objective of the macroeconomic programme over the next five years will be the adaptation of fiscal policy to absorb the up-front costs of the 1996 pension reform that replaced the previous publicly defined benefit system with a privately managed and defined contribution system. The 1996 reform privatized the pension system, mandated a broader coverage of the workforce and changed the structure of contributions and benefits. The Government will continue to pay the basic pension of current retirees and will reimburse future retirees for the contributions they made to the old system. In addition, the Government agreed to take over complementary pension funds in late 1996 and began paying the complementary pensions of current retirees.

32. Before reaching the completion point, the Government will need to implement, or where relevant, make satisfactory progress toward implementing, *inter alia*, the following: (a) structural policy actions required for release of IDA's Financial Sector Floating Tranche of the Capitalization Programme Adjustment Credit (i.e., insurance, securities laws and regulations, the staffing of a regulatory agency to supervise compliance with the pensions law and regulations, and the strengthening of the Superintendency of Insurance); and (b) maintaining the independence of the sectoral regulatory institution and the financial-sector regulatory institution. Execution of these reforms will be **monitored** under ongoing IDA and IMF supported programmes.

33. **Social development and rural poverty eradication programmes.** The reduction of poverty is one of the main goals of the Government's programme and is seen as vital for sustained economic growth and social equity. The Government will continue to implement social reforms in key areas, including education and health, and will implement programmes to develop rural areas, which are extremely poor. In support of these efforts, the Government plans to increase expenditures on social and rural development programmes from 8.5% of GDP in 1996 to about 9.5% of GDP in 1999.



34. Implementation of these policies and actions will be monitored prior to the completion point, as a condition for relief. These **actions** are summarized in Appendix IV, Tables 1, 3 and 5. Tables 2, 4 and 6 present the indicators that will be monitored and supported after the completion date in the context of ongoing and new IDA and IDB lending operations as well as a continuing dialogue with the authorities in these areas.

35. **In education**, the specific actions to be implemented prior to the completion point include: (a) increasing total expenditures on primary and secondary education from 3.3% of GDP in 1997 to 3.5% of GDP in 1998; (b) modifying the Education Law by, among other things, adapting the education system to the Popular Participation and Administrative Decentralization Laws; (c) implementing a new policy and institutional structure for early childhood education and a national assessment system for the educational system; and (d) increasing spending on basic education and a more efficient use of these resources to improve the coverage and primary school completion ratios, especially in rural areas and for females. After the completion point, the Government will continue implementing the comprehensive reform programme that began in 1991. To improve the allocation of public expenditure on education, the Government will increase the budget for primary and secondary education and limit the growth of expenditure on higher education. In addition, the Government will devote additional resources to: (a) achieve an 80% primary education completion rate by 2005; (b) involve the community in the development of quality-improvement projects at the individual school level; (c) improve access of females in rural areas to attend primary schools; and (iv) implement a new policy on early childhood education during 1997 to improve the chances that children will succeed in school (Appendix IV, Table 1).

36. **In the health area**, the specific actions to be implemented prior to the completion point include: (a) developing a health-sector strategy and a new mechanisms for financing the health sector; (b) formulating and implementing a clear policy and strategy for the social development funds, including the implementation of a new cofinancing policy; and (c) increasing resources to develop and begin implementing a new national health strategy that focuses on the provision of basic health services to women and children as well as an action plan to combat endemic disease, especially Chagas' disease and malaria. After the completion point, the Government will strengthen its efforts to improve primary health-care services, especially with respect to strengthening maternal and child health programmes as well as dealing with endemic diseases in rural areas. The Government will also develop a health-sector strategy that will include: (a) strengthening the management of health facilities in the context of the decentralization process; (b) improving the financing of the sector to improve sustainability of services and equity; and (c) seeking ways to integrate the private sector and non-governmental organizations more fully into the system (Appendix IV, Tables 3 and 4).

37. **In poverty reduction and rural development**, the specific actions to be implemented prior to the completion point include increasing public investment in social sectors in general and rural development in particular, by setting up an effective system for monitoring public social expenditures at the central level and by monitoring rural development and poverty alleviation. With regard to rural development, efforts will be devoted to: (a) establishing a clearer policy and strategy for the social development funds to improve the targeting and efficiency of rural and social investment, coupled with the implementation of a new cofinancing policy; (b) coordinating and clarifying the responsibilities of the various ministries and other public entities for policy making, priority setting and the monitoring and funding of rural development, agriculture, livestock, and natural resources management; and (c) strengthening the municipalities' administrative capacity to assume their responsibilities defined under Popular Participation. In addition, greater efforts will be made to enforce agricultural reform and environmental legislation. By the end of 1998, it is expected that: (a) 90% of all municipalities will have participatory municipal development plans; and (b) the municipal budgets will reflect priorities established in these plans. These measures will lead to a significant increase in rural investment, primarily in basic infrastructure. In coordination with these efforts, the

Government plans to establish an institutional framework for microcredit, especially for rural financing (Appendix IV, Table 5).

B. Debt-Relief Calculations

Debt-Sustainability Requirements

38. **Debt-sustainability targets.** The debt-sustainability targets approved for Bolivia were tailored to reduce debt-service obligations to as close to 20% of exports as possible (i.e., the lower end of the 20-25% target range under the HIPC DI), in order to give Bolivia's external sector an adequate buffer from the effects of possible adverse shocks. Based on updated macroeconomic projections, the key target for debt relief is a 225% debt-to-exports ratio at the completion point. Bolivia's external public and publicly guaranteed debt-to-exports ratio (in present value terms) is projected to fall from 270% of the three-year export average as of the end of 1996 to 238% by 1999, and to 143% of exports in the period 2011-2016. The debt service-to exports-ratio (NPV and in relation to current-year exports) will decline from an average of about 26% in 1997-98 to 24% in 2000, and continue falling gradually to 16% by 2016. The leading multilateral agencies defined Bolivia's action dates under the HIPC DI as follows: a decision point of September 1997 and an accelerated completion point as of September 1998. The expected contribution from multilateral creditors, based on the equally proportional debt-burden sharing approach, was set at 13.5%.

39. **Debt-reduction package.** To achieve the NPV target of 225% in the debt-to-exports ratio at completion point, total debt-relief requirements amount to USD 448 million NPV. This amount of total assistance to be provided to Bolivia by all of its participating creditors (bilateral and multilateral) will reduce the country's external debt burden by 13.3% NPV of eligible claims. This is estimated to translate into debt-service relief over time (nominal value terms) of close to USD 600 million.

40. **Multilateral debt relief.** Multilateral creditors will provide 65% of the total assistance (USD 291 million), reflecting their projected share of Bolivia's external public and publicly guaranteed debt as of the end of 1996. Based on equally proportional debt-burden sharing, each multilateral creditor will be expected to provide assistance to Bolivia according to their share of Bolivia's debt as of the end of 1996 (in present value terms), amounting to an NPV reduction of about 13.5% of their claims. Expressed in NPV terms, individual contributions by principal multilateral creditors will be expected as follows: IDA: USD 54.0 million; IMF: USD 29.0 million; IDB: USD 155.0 million; CAF: USD 39.0 million; and IFAD: USD 3.1 million. Since the projected debt-to-export ratio at completion point will be 259% (i.e., exceeding 250%), Bolivia is eligible within the agreed framework to receive one-third of its IDA programme funding level in grant form during the interim period (between the decision and completion points).

41. **Bilateral contribution.** Similarly, bilateral creditors (official bilateral and commercial) will provide the remaining 35%, or USD 157.0 million. At their meeting in June 1997, Paris Club creditors agreed in principle to reopen the existing Naples stock-of-debt operation terms for Bolivia, and to provide an additional reduction up to a total of 80% (in present value terms). The coverage of the debt to be reduced will be determined in light of equitable burden sharing among creditors, including multilateral creditors.

IFAD Contribution

42. **Proposed IFAD contribution.** The IFAD HIPC Trust Fund will be utilized to provide the required relief on debt owed to IFAD for an amount of SDR 2.2 million NPV at the completion point, and equivalent to USD 3.1 million NPV. This cost represents approximately 13.5% of the USD 23.0 million outstanding debt with the Fund, a share that has been allocated under fully proportional debt-relief sharing among multilateral creditors. Moreover, attention is drawn to the projected heavy debt service of accumulated debt to IFAD over the next five years (1999-2003), which amounts to approximately USD 2.5 million per year (nominal terms). In this regard, IFAD's contribution to the HIPC DI is key in order to maintain a positive cash flow to the country, in conjunction with timely disbursements of the current loan portfolio. The share of IFAD to multilateral debt relief is presented in the table below.

DEBT SITUATION AND EXPECTED MULTILATERAL DEBT RELIEF
(USD million)

Debt Value	Total Amount of Debt (*)	Multilateral Debt	IFAD Debt (**)	IFAD Share of Multilateral Debt
Nominal terms	4 639.0	3 012.0	36.2	1.2%
Present value (NPV)	3 344.0	2 151.0	23.1	1.1%
Share of debt relief (13.5%) (NPV)	--	291.0	3.1	1.1%

(*) Total amount of debt refers to total public and publicly guaranteed debt as of the end of 1996. Shares of debt relief presented apply to multilateral creditors only, are based on equally proportional debt-burden sharing, and estimated as of the completion point of September 1998.

(**) IFAD total outstanding debt (principal) as of the end of 1996.

43. **Calculation of IFAD's share of debt relief.** IFAD has approved eight loans to Bolivia between June 1979 and April 1997. As of the end of 1996, three loans were closed loans (Appendix II). Expected loan servicing amounts will vary between the loans, due to the fact that three have been awarded at intermediate (4%) and others at highly concessional terms (two loans at one per cent service charge, and three loans at 0.75%). The calculation of IFAD's debt relief is based on the three loans that have been disbursed and closed, and on the four loans which have effected disbursements. One loan, approved in April 1997, has not fulfilled conditions for effectiveness and thus has not yet begun to disburse.

44. As of the end of 1996, loan commitments totalled SDR 69.3 million, of which SDR 51.8 million (or 74.7%) had been disbursed. Repaid principal amounted to SDR 15.5 million, leaving about SDR 25.2 million outstanding (equivalent to USD 36.2 million in nominal terms). The calculation of IFAD's share of debt relief (in present value terms) is based on this amount of outstanding principal and estimated service charges, and on the following parameters which were furnished by IMF/World Bank for the case of Bolivia: exchange rate USD/SDR of 1.43796; and SDR-based semi-annual discount factor of 3.25% (end of December 1996).



45. The present value of Bolivia's outstanding debt to IFAD has been calculated at SDR 16.0 million, equivalent to USD 23.1 million. Based on the full debt-relief burden sharing percentage of 13.5%, IFAD's proposed contribution to Bolivia's debt relief has been established at SDR 2.2 million (in present value terms), equivalent to approximately USD 3.1 million (in present value terms). The amount of proposed IFAD contribution in nominal terms is SDR 2.5 million, equivalent to approximately USD 3.6 million. The debt relief is calculated on IFAD claims at the decision point of September 1997 (based on end of 1996 data, in present value terms), for a relief package to be awarded at the completion point of September 1998.

C. Debt-Reduction Package and Proposed IFAD Contribution

46. **Conditionality.** The reduction of Bolivia's debt to IFAD will be triggered at the completion point of September 1998 by Bolivia's satisfactory fulfilment of the conditions and performance criteria established for the commencement of IDA and IMF debt relief under the Bolivia HIPC DI. IDA and IMF have monitored compliance with the agreed-upon performance indicators during the interim period, and they will report to the participating IFIs by the end of September 1998.

47. **Legal instruments.** Debt reduction by IFAD will be accomplished through a grant by the IFAD HIPC Trust Fund. An agreement between the Republic of Bolivia and IFAD, as administrator of the Trust Fund, constitutes the legal instrument for extending such grant

D. Implementation of the Proposed Debt Relief

48. The IMF and the World Bank have decided to front-load substantially their assistance in view of Bolivia's heavy debt-service burden over the next few years. As part of the coordinated efforts among multilateral institutions, IFAD has been requested also to consider such front-loading.

49. IFAD is committed to support decisively the Government's intensified efforts towards rural poverty eradication, and thus the Fund is inclined to help address the relatively high debt-service amounts owed to IFAD over the next five years (1999-2003). This is a period of time in which heavy payments to IFAD will come due of approximately USD 2.4 million per year (nominal terms). Therefore, it is proposed that the IFAD HIPC Trust Fund provide debt relief to Bolivia by reducing payment amounts over the next five years. Thus, ten semi-annual payments (of a consolidated amortization schedule for all eligible loans) should be reduced proportionally up to exhausting the proposed total amount of debt relief (USD 3.6 million, nominal). The proposed spreading of IFAD's debt relief over five years will also assist in easing the potential cash-flow burden of IFAD's participation in the overall initiative in its earlier years of intervention.



PART IV - RECOMMENDATION

50. I recommend that the Executive Board approve the proposed contribution to the reduction of Bolivia's debt to IFAD within the framework of the Bolivia HIPC DI, in terms of the following resolution:

RESOLVED: that the Fund, upon declaration at the completion point by the International Monetary Fund and the World Bank that the Republic of Bolivia has satisfied the conditions for debt relief under the Bolivia HIPC DI, shall:

reduce the value of Bolivia's debt to IFAD by extending a grant from the IFAD HIPC Trust Fund which will meet certain debt service obligations of Bolivia to IFAD as they fall due after the completion point up to the aggregate value of SDR 2.2 million NPV, equivalent to approximately USD 3.1 million. This amount represents approximately 13.5% of the accumulated debt with the Fund, allocated under proportional burden sharing with other multilateral creditors.

Fawzi H. Al-Sultan
President

BOLIVIA COUNTRY DATA

Land area (km² thousand) 1994 1/	1 084	GNP per capita (USD) 1995 2/	800
Population (million) 1995 1/	7	Average annual real rate of growth of GNP per capita, 1985-95 2/	1.7
Population density (population per km²) 1995 1/	7	Average annual rate of inflation, 1985-95 2/	18.5
Local currency	Boliviano (BOB)	Exchange rate: USD 1 =	BOB 5.35 (December 1997)
Social Indicators		Economic Indicators	
Population (average annual rate of growth) 1980-95 1/	2.2	GDP (USD million) 1995 1/	6 131
Crude birth rate (per thousand people) 1995 1/	35	Average annual rate of growth of GDP 1/ 1980-90	-0.0
Crude death rate (per thousand people) 1995 1/	10	1990-95	3.8
Infant mortality rate (per thousand live births) 1995 1/	69	Sectoral distribution of GDP, 1995 1/	
Life expectancy at birth (years) 1994 3/	60.1	% agriculture	n.a.
Number of rural poor (million) 1/	n.a.	% industry	n.a.
Poor as % of total rural population 1/	n.a.	% manufacturing	n.a.
Total labour force (million) 1995 1/	3	% services	n.a.
Female labour force as % of total, 1995 1/	37	Consumption, 1995 1/	
Education		Government consumption (as % of GDP)	13
Primary school enrolment (% of age group total) 1993 1/	n.a.	Private consumption (as % of GDP)	79
Adult literacy rate (% of total population) 1994 3/	82.5	Gross domestic savings (as % of GDP)	8
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1992 3/	2 100	Merchandise exports, 1995 1/	1 101
Index of daily calorie supply per capita (industrial countries=100) 1992 3/	67	Merchandise imports, 1995 1/	1 424
Prevalence of child malnutrition (% of children under 5) 1989-95 1/	13	Balance of trade	- 323
Health		Current account balances (USD million)	
People per physician, 1993 1/	2 348	before official transfers, 1995 1/	- 444
People per nurse, 1993 1/	7 048	after official transfers, 1995 1/	- 218
Access to safe water (% of population) 1990-96 3/	66	Foreign direct investment, 1995 1/	150
Access to health service (% of population) 1990-95 3/	67	Net workers' remittances, 1995 1/	- 0
Access to sanitation (% of population) 1990-96 3/	55	Income terms of trade (1987=100) 1995 1/	108
Agriculture and Food		Government Finance	
Cereal imports (thousands of metric tonnes) 1994 1/	434	Overall budget surplus/deficit (as % of GDP) 1994 1/	-3.6
Food imports as percentage of total merchandise imports 1993 1/	9	Total expenditure (% of GDP) 1994 1/	25.2
Fertilizer consumption (hundred grams of plant nutrient per arable ha) 1994/95 1/	45	Total external debt (USD million) 1995 1/	5 266
Food production index (1989-91=100) 1995 1/	91	Total external debt (as % of GNP) 1995 1/	67.1
Food aid in cereals (thousands of metric tonnes) 1994-95 1/	175	Total debt service (% of exports of goods and services) 1995 1/	28.9
Land Use		Nominal lending rate of banks, 1995 1/	51.0
Agricultural land as % of total land area, 1994 1/	27	Nominal deposit rate of banks, 1995 1/	18.9
Forest and woodland area (km ² thousand) 1990 1/	493		
Forest and woodland area as % of total land area, 1990 1/	45		
Irrigated land as % of arable land, 1994 1/	4.2		

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 1997

2/ World Bank, *Atlas*, 1997

3/ United Nations Development Programme, *Human Development Report*, 1997

**BASIC FINANCIAL DATA FOR THE IFAD PORTFOLIO IN BOLIVIA**

(As of the end of June 1998)

1. Loan 016-BO - Omasuyos-Los Andes Rural Development Project

Initiating Institution:	IDA
Cooperating Institution:	IDA
Cofinancing Institution:	IDA
Date of EB Approval:	27 June 1979
Date of Loan Effectiveness:	28 March 1980
(Extended Loan) Closing Date:	31 December 1986
Lending Terms:	Intermediate
Loan Amount:	SDR 3.15 million (equivalent to approximately USD 4.0 million)
Disbursement:	SDR 2.5 million (79%) (at closing)

2. Loan 086-BO - Chuquisaca North Agricultural Development Project

Initiating Institution:	IFAD
Cooperating Institution:	CAF
Cofinancing Institution:	CAF
Date of EB Approval:	17 December 1981
Date of Loan Effectiveness:	7 February 1983
(Extended Loan) Closing Date:	30 June 1993
Lending Terms:	Intermediate
Loan Amount:	SDR 11.7 million (equivalent to approximately USD 13.8 million)
Disbursement:	SDR 11.7 million (100%) (at closing)

3. Loan 149-BO - Cotagaita-San Juan del Oro Agricultural Development Project

Initiating Institution:	IFAD
Cooperating Institution:	CAF
Cofinancing Institutions:	Organization of Petroleum Exporting Countries (OPEC) and World Food Programme (WFP)
Date of EB Approval:	5 April 1984
Date of Loan Effectiveness:	3 December 1985
(Extended Loan) Closing Date:	31 December 1996
Lending Terms:	Highly Concessional
Loan Amount:	SDR 11.35 million (equivalent to approximately USD 12.0 million)
Disbursement:	SDR 11.7 million (100%) (at closing)

4. Loan 218-BO - Chuquisaca South Rural Development Project

Initiating Institution:	IFAD
Cooperating Institution:	CAF
Cofinancing Institutions:	OPEC Fund and WFP
Date of EB Approval:	3 December 1987
Date of Loan Effectiveness:	17 April 1989
(Extended Loan) Closing Date:	31 December 1998
Lending Terms:	Highly Concessional
Loan Amount:	SDR 4.2 million (equivalent to approximately USD 5.5 million)
Disbursement:	SDR 3.9 million (93%)

**5. Loan 266-BO - Consolidation and Development of Smallholder Settlements in the Department of Santa Cruz Project**

Initiating Institution:	IFAD
Cooperating Institution:	CAF
Cofinancing Institutions:	OPEC Fund and WFP
Date of EB Approval:	2 October 1990
Date of Loan Effectiveness:	23 September 1991
Closing Date:	30 June 1998
Lending Terms:	Intermediate
Loan Amount:	SDR 8.7 million (equivalent to approximately USD 12.0 million)
Disbursement:	SDR 8.7 million (100%)

6. Loan 354-BO - Camelid Producers Development Project in the Andean High Plateau

Initiating Institution:	IFAD
Cooperating Institution:	CAF
Cofinancing Institutions:	OPEC Fund and CAF
Date of EB Approval:	20 April 1994
Date of Loan Effectiveness:	23 June 1995
Closing Date:	30 September 2003
Lending Terms:	Highly Concessional
Loan Amount:	SDR 5.45 million (equivalent to approximately USD 7.6 million)
Disbursement:	SDR 1.65 million (30%)

7. Loan 373-BO - Sustainable Development Project by Beni Indigenous People

Initiating Institution:	IFAD
Cooperating Institution:	CAF
Cofinancing Institution:	CAF
Date of EB Approval:	6 December 1994
Date of Loan Effectiveness:	30 October 1996
Closing Date:	30 June 2003
Lending Terms:	Highly Concessional
Loan Amount:	SDR 4.3 million (equivalent to approximately USD 6.2 million)
Disbursement:	SDR 0.97 million (23%)

8. Loan 445-BO - Small Farmers Technical Assistance Services Project (PROSAT)

Initiating Institution:	IDA
Cooperating Institution:	IDA
Cofinancing Institution:	IDA (Parallel Financing)
Date of EB Approval:	29 April 1997
Date of Loan Effectiveness:	Not yet effective
Closing Date:	30 June 2004
Lending Terms:	Highly Concessional
Loan Amount:	SDR 5.85 million (equivalent to approximately USD 8.1 million)
Disbursement:	--

Total Country Assistance: SDR 54.8 million, of which loans: SDR 54.7 million; and NGO/ECP grants: approximately SDR 73 000.
(Equivalent approximately to: USD 69.4 million, of which loans: USD 69.2 million; and NGO/ECP grants: USD 102 000).



APPENDIX III

TIMETABLE FOR SELECTED STRUCTURAL REFORMS¹

Policy Measures	Timing
Public Sector	
a. Sell transmission company of the National Electricity Company (ENDE)	June 1997 (Implemented in July)
b. Introduce personnel registry for general government	June 1997 (Implemented in June)
c. Issue new norm on personnel management	June 1997 (Implemented in June)
d. Issue general budget norm	June 1997 (Implemented in July)
e. Adopt legal framework to limit domestic indebtedness of local governments	July 1997 (Implemented in August)
f. Establish a national unit to cover large taxpayers	December 1997
g. Privatize the national smelting company Vinto	December 1997
h. Develop plan to privatize or otherwise improve efficiency of two refineries and distribution operations of the residual National Oil Company (YPFB)	December 1997
i. Sell two electricity companies	December 1997
j. Sell two remaining companies that had belonged to the regional development corporations	December 1997
Financial Sector	
a. Issue regulations to set minimum capital-asset ratio and ask banks to submit plans to meet this new ratio by beginning of 1999	September 1997 (Implemented in August) ²
b. Issue regulations setting central bank policy on liquidity support to banks	November 1997
c. Issue regulations on reserve requirements and liquidity requirement	December 1997 ²
d. Passage of security markets law and adoption of regulations	December 1997 ²
e. Superintendent of Pensions issue regulations and operational norms to establish minimum quality of services by the pension funds, prudential requirements for their investments, and minimum liquidity requirements	December 1997 ²
f. Submit insurance law to congress	June 1998
Customs Reform	
a. Issue regulations to supervise suspension of import duties, revise the regime for customs agents, and create free-trade zones	December 1997
b. Transfer management of remaining public customs warehouse to private sector	March 1998
c. Submit customs law to congress	March 1998
d. Complete construction of two private customs posts	June 1998
Mining Sector	
Complete long-term restructuring of the Mining Corporation COMIBOL	March 1998

¹ Performance Criteria for the Implementation of Selected Structural Measures - Third Annual Arrangement Under the ESAF.

² Structural Performance Criterion

SOCIAL DEVELOPMENT ACTIONS AND PERFORMANCE INDICATORS

Table 1: Actions in Education

Action	Verifiable Indicator	Means of Verification ¹
1. Increase public expenditures on basic education, especially non-salary expenditures	<ul style="list-style-type: none"> • Targets for total expenditures on primary and secondary education/GDP • Establish targets for non-salary basic education expenditures 	Actual spending data
2. Develop a plan for reducing expenditures on higher education as a share of total education expenditures	<ul style="list-style-type: none"> • To be completed by the end of 1997 	SOE and MH
3. Improve coverage of basic education in rural areas, especially for females	<ul style="list-style-type: none"> • Targets for rural coverage ratios for males and females • Develop by the end of 1997 and start implementing (mid-1998) a plan to improve access of girls in rural areas to basic education 	SOE and UDAPSO
4. Increase number of children that complete primary education	<ul style="list-style-type: none"> • Targets for number of children that complete 5th grade in urban and rural areas • Targets for number of females that complete 5th grade in urban and rural areas 	SOE and UDAPSO
5. Improve quality of basic education	<ul style="list-style-type: none"> • Targets for number of beneficiary schools implementing quality improvements • Development of an action programme for continued implementation of school-level quality improvement programmes • Strategy to provide a minimum of textbooks to all students in primary and secondary education to be developed by mid-1998 • Establish national assessment system by end-1997, including an analysis and publication of the results of the baseline 	SOE
6. Improve access to early childhood education	<ul style="list-style-type: none"> • Establish a policy and institutional framework for early childhood development programmes • Targets for number of children (age 6 and under) in early childhood development programmes 	FIS and UDAPSO
7. Adapt education reform to popular participation and decentralization	<ul style="list-style-type: none"> • Enact modifications to education reform regulations by mid-1998 	SOE

¹ SOE: Secretariat of Education; MH: Ministry of Finance; UDAPSO: Social Sector Policy Analysis Unit; FIS: Social Investment Fund



APPENDIX IV

Table 2: Performance Indicators in Education

Indicator	Base	1997	1998	1999	2000
• Total expenditures on primary and secondary education/GDP (in percent)	3.1	3.3	3.5	3.9	3.9
• Rural coverage-males (in percent)	66	67	69	72	74
• Rural coverage-females (in percent)	54	56	60	64	68
• Number of children that complete 5th grade in urban areas (in thousands)	86	88	91	99	98
• Number of girls that complete 5th grade in urban areas (in thousands)	41	43	46	47	47
• Number of children that complete 5th grade in rural areas (in thousands)	60	63	66	70	75
• Number of girls that complete 5th grade in rural areas (in thousands)	29	30	32	34	36
• Cumulative number of beneficiary schools in quality improvement programmes (such as PASE, PIME, and PIE)	n.a.	9 000	15 221	20 310	26 558
• Number of children (age 6 and under) in early childhood development programmes	43 667	50 000	80 000	100 000	120 000

Table 3: Actions in Health

Action	Verifiable Indicator	Means of Verification ²
1. Develop a national health strategy in the context of decentralization that among other things improves sector financing	<ul style="list-style-type: none"> Strategy to be developed by end-1997 and implementation initiated by mid-1998 Proposal presented for health system financing mechanism by mid-1998 and implementation of system initiated by end-1998 Proposal presented for new health care delivery system in all sized municipalities by mid-1998 	SOH
2. Increase public expenditures on health	<ul style="list-style-type: none"> Establish targets for public expenditures on health 	Actual spending data
3. Improve access and coverage of maternal and child health care services	<ul style="list-style-type: none"> Targets for share of births attended by trained staff Targets for children treated for respiratory diseases and diarrhoea Targets for children (under 5) completing vaccination cycle 	SOH
4. Reduce incidence of endemic diseases, including Chagas' disease and malaria	<ul style="list-style-type: none"> Targets for pregnant women in endemic areas undergoing Chagas' disease testing Targets for number of houses improved/protected against Chagas' disease in endemic areas Targets for prevalence of malaria in affected areas 	SOH

Table 4: Performance Indicators in Health

Indicator	Base	1997	1998	1999	2000
Health (in percent)					
• Percent of births attended by health professionals in the framework of the Mother and Childhood National Insurance Programme (SNMN)	30	45	56	63	69
• Share of children (age 5 or under) treated for acute respiratory infection (IRA) in the framework of SNMS	25	43	50	60	70
• Share of children (age under 5 or under) treated for acute diarrhoea (EDA) in the framework of SNMN	25	25	36	46	56
• Percent of children under 5 that have completed the vaccination cycle (such as polio, DPT, measles, BCG) appropriate for their age group	78	80	82	83	85
• Percent of pregnant women in endemic areas having Chagas' disease testing within the framework of the SNMN	0	13	40	45	50
• Share of houses receiving improvements against Chagas' disease in endemic areas	8	14	25	35	40
• Share of annual parasite index (IPA) in malaria areas (*1000 inhabitants)	n.a.	35.2	20.0	15.0	8.0

² SOH: Secretariat of Health



APPENDIX IV

Table 5: Actions in Rural Development and the Fight Against Poverty

Action	Verifiable Indicator	Means of Verification ³
1. Improve monitoring of expenditures and outcomes in social sectors and rural development	<ul style="list-style-type: none"> Database and monitorable indicators for rural development and poverty alleviation to be developed by mid-1998 Effective systems to be put in place at the central (end of 1997), prefecture (end of 1998) and municipal (end of 1999) levels for monitoring of public social expenditures UDAPSO's role in monitoring social expenditures and poverty to be reviewed and strengthened by the end of 1997 	SNPP and EDAPSO MH
2. Establish a clear policy and strategy for social and rural Development Funds	<ul style="list-style-type: none"> To be completed by March 1998 and new system introduced thereafter 	MOP
3. Provide rural communities with basic services infrastructure	<ul style="list-style-type: none"> Targets for number of beneficiaries of rural/peri-urban basic water and sanitation projects Targets for investments in rural roads improvement/rehabilitation 	FIS, SNPP and UDAPSO
4. Strengthen land tenure system, improve land distribution, and improve agricultural research	<ul style="list-style-type: none"> Targets for number of hectares subject to cadastre and sanitation Real Estate Registry Law to be presented to Congress by the end of 1998 Competitive agricultural research and extension system to be developed by the end of 1997 	SOA
5. Establish a policy and framework for providing micro-credits and rural finance	<ul style="list-style-type: none"> To be established by March 1998 and introduced thereafter 	MH

Table 6: Performance Indicators in Rural Development

Indicator	Base	1997	1998	1999	2000
• Number of beneficiaries of rural and peri-urban basic water and sanitation projects	132 000	132 000	132 000	132 000	132 000
• Investments in rural roads improvement/rehabilitation (USD million)	32	32	42	48	55
• Number of hectares subject to cadastre and title regulations (millions)	0.33	1.6	3.5	4.0	4.0

³ SNPP: National Secretariat for Popular Participation; UDAPSO: Social Sector Policy Analysis Unit; MH: Ministry of Finance; MOP: Ministry of the Presidency; FIS: Social Investment Fund; SOA: Secretariat of Agriculture.

