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PUBLIC DISCLOSURE AUTHORIZED

McNamara Papers

Contacts
Bolivia (1968-1980)

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Contacts with member countries: Bolivia - Correspondence 01

BOLIVIA

BOLIVIA

1. 12/12/68 Gen. Suarez Guzman, Minister of Mines
Dr. Alvaro Torrico, Minister in charge of COMIBOL
Ambassador Julio Sanjinea-Goytia

- 7/18/69 Jorge Arteaga Castro, Owner and Manager, Arteaga Castro
(Aspen - Consultants, La Paz
Eisen. Ex.)

2. 3/4/70 Antonio Sanchez de Lozada, Minister of Finance
Ambassador Julio Sanjines-Goytia
Wenceslao M. Alba, General Manager, Central Bank
Roberto Capriles, General Manager, Empresa Nacional de Electricidad

3. 11/2/70 Adolfo Linares, President, Andean Development Corp. (located in
Caracas, Venez.)

4. 11/30/70 Flavio Machicado, Minister of Finance
Ambassador Julio Sanjinea-Goytia
Antonio Cespedes, Embassy Minister-Counselor

5. 10/2/72 Luis Bedregal Rodo, Minister of Finance
Julio Prado Salmon, Minister of Planning
Jorge Salazar Mostajo, President, Central Bank of Bolivia
Willy Vargas, Economic Adviser to the President

6. 9/17/75 General Juan Lechin Suarez, Minister of Coordination and Planning
Ambassador Roberto Capriles

7. 3/7-9/76 Mr. McNamara's Impressions of Trip and Itinerary

- 3/7/76 Carlos Calvo, Minister of Finance
(La Paz)

- 3/8/76 Juan Lechin, Minister of Planning and Coordination
(LaPaz) Adalberto Violand, Economic Advisor to the President
Enrique Garcia, Under Secretary of Planning and Coordination
Alberto Valdes, Under Secretary of Planning and Coordination
Manuel Mercado, President of the Central Bank
Hector Ormachea, Executive Director, National Institute for Financing

- " General Hugo Banzer, President

- " Winston Pacheco, La Paz Regional Development Corporation

- " Alberto Natusch Busch, Minister of Agriculture
Boris Marinovic, Under Secretary of Agriculture
Mario Mercado, Mayor of La Paz
Jaime Tapia, President of CORDEPAZ
Henry Meyer, UNDP Resident Representative
Gustavo Mendez, General Manager, Bolivia Railways Co.
Galdo Sanjines, General Manager, CORDEPAZ
Feliz Fernandez, Project Manager for Ingavi
Juan Demure, Director of the Center for Social and Economic Development

3/9/76
(La Paz)

Jorge Lonsdale, President of the Private Enterprises Association
Fernando Romero, Representative of the Commerce and Agricultural Association
Carlos Iturralde, Representative of the Mining and Livestock Assn.
Javier Claros, Representative of the Bolivian Consulting Firms
Jorge Bartos, Representative of the Construction Industry

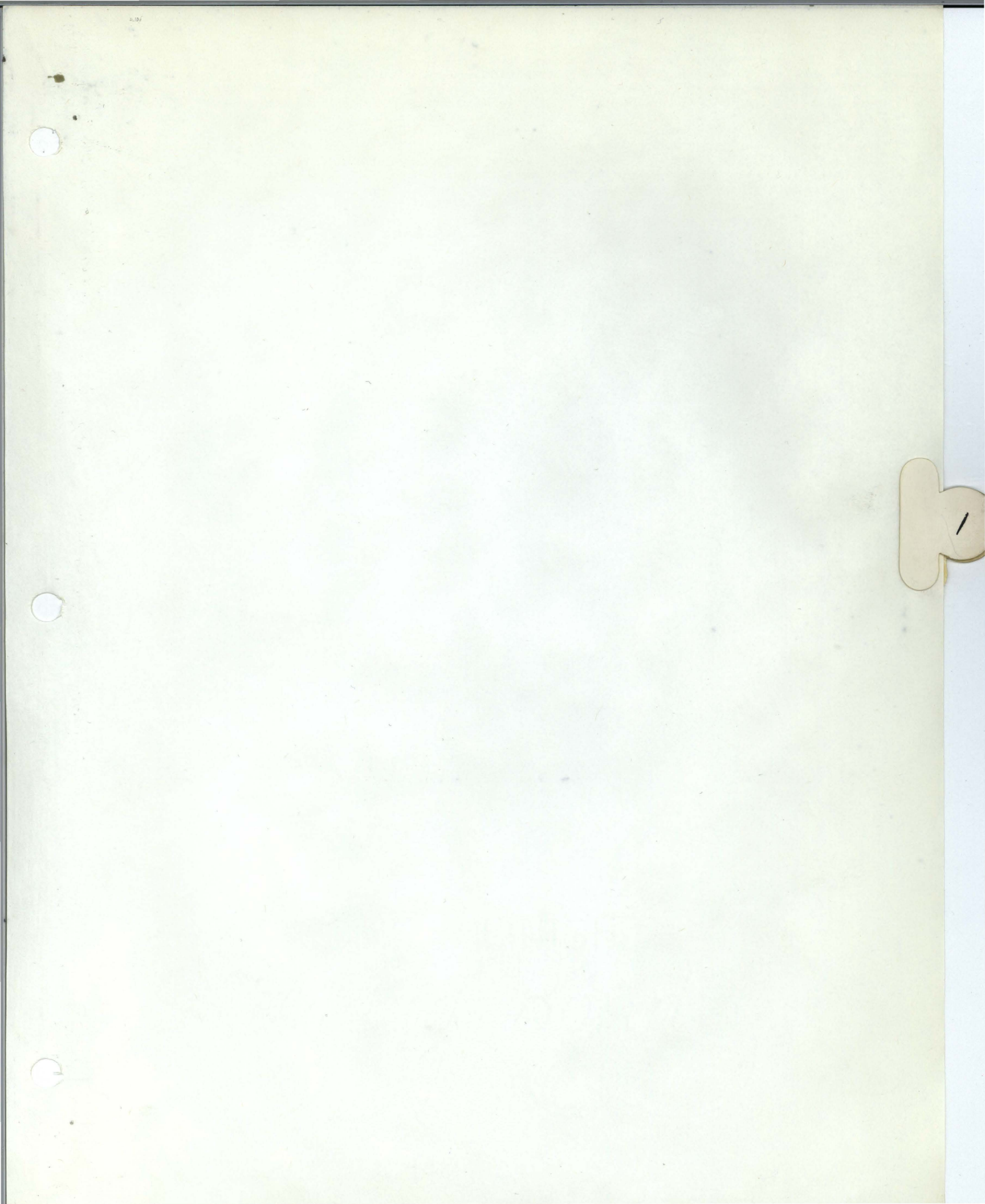
"

Julio Trigo, Minister of Transportation
Jorge Patino, President of Bolivian Airlines
Dr. Hugo Palazzi, Physician

Others:

Raul Boada, Under Secretary of Finance

8. 9/21/76 General Juan Lechin Suarez, Minister of Planning and Coordination
Enrique Garcia, Under Secretary of Planning and Coordination
9. 11/28/77 Alberto Valdes, Under Secretary of Planning
Boris Marinovic, Under Secretary of Agriculture
10. 2/7/80 Jorge Agreda, Minister of Planning & Coordination
Amb. Arce
Mr. Blanco (Alt.E.D.)



OFFICE MEMORANDUM

TO: Mr. Robert McNamara

DATE: December 11, 1968

FROM: Gunter K. Wiese *GW*SUBJECT: BOLIVIA - Visit of Bolivian Cabinet MinistersThe Visitors

1. General Hugo Suarez Guzman, former Minister of Defense and presently Minister of Mines and Petroleum, and Dr. Alvaro Torrico, Minister in charge of COMIBOL, the big government-owned tin producer, will make a courtesy call on you on Thursday, December 12, at 11:10 a.m. They will be accompanied by the Bolivian Ambassador, Colonel Julio Sanjines-Goytia, and Dr. Caram.

2. General Suarez Guzman, about 55, is a career officer, trained in Bolivia and Argentina and now retired from the Army. You met him in 1966 when he came to Washington in his capacity of Minister of Defense. In his present capacity, he is directly interested in the natural gas pipeline project currently under consideration for a loan by the Bank. Minister Torrico is a lawyer and former Vice President of COMIBOL. He is also the son of the Chief Justice of Bolivia's Supreme Court. ✓

Topics for Discussion

3. Ambassador Sanjines has told us that the visitors want to make a courtesy call in view of the fact that:

- (a) General Suarez has responsibility for the gas pipeline project.
- (b) You once assisted Dr. Torrico and his father to obtain treatment at Walter Reed Hospital.

The Ambassador believes they will not raise any issues.

4. Attached is a brief summary of our pending activities in Bolivia.

cc: Mr. Steckhan

President has seen

Summary of Pending Activities in Bolivia

Electric Power

1. To date, IDA has lent \$17 million to Bolivia for power and livestock. Negotiations started today for a \$7.4 million IDA credit for the Santa Isabel hydroelectric project of Empresa Nacional de Electricidad S.A. (ENDE), the government-owned power company. ENDE was established in 1964 to build and operate the Corani hydroelectric plant financed with the proceeds of the \$10 million credit made in that year by IDA. ENDE's performance under the 1964 credit has been very good. We expect to sign the new credit at the end of January 1969.

Gas Pipeline

2. We have been asked by the Bolivian Government petroleum agency (YPFB) and Gulf to make a \$25 million Bank loan for a gas pipeline to enable them to supply gas to Argentina under a contract which they jointly concluded with Argentina's Gas del Estado in July 1968. Argentina and Bolivia are both proud of the project as one of the first real "integration" projects in Latin America. Our appraisal is planned for January; in the meantime, we are discussing the draft inter-company agreements with the sponsors. The latter asked the Bank, in view of the fact that Argentina was so intimately concerned with the project, to give Argentine suppliers the same preference for procurement of material that we would be ready to give to Bolivian suppliers. We have replied that Bank's procurement policies would not permit this.

Transport

3. Early in 1969 we will send a mission to discuss with the Government the conclusions of a transport survey which we supervised as Executing Agency for the United Nations Development Program. The consultants who carried out the study were very late with their report (which we are now analyzing), and serious frictions exist between them and the Bolivian Government. We hope the mission will identify a transport project for IDA lending in 1970.

Education

4. After a recent reconnaissance by our staff, we are making arrangements for a UNESCO/IDA mission to visit Bolivia next March to prepare a project for teacher training, secondary schools and agricultural education. This proposed operation might also be concluded in 1970.

Economic Mission

5. The Bank has not previously studied the Bolivian economy in depth. We plan to send a major economic mission in 1969 to define performance criteria and review investment priorities.

December 11, 1968

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*Mr. McNamara**to see
Lee 3/12*

OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: March 12, 1970

FROM: Gerald Alter *HA*CONFIDENTIALSUBJECT: Meeting of Mr. McNamara with the Minister of Finance
of Bolivia, Mr. Antonio Sánchez de Lozada**DECLASSIFIED****SEP 19 2012****WBG ARCHIVES**

The Minister of Finance of Bolivia, Mr. Antonio Sánchez de Lozada, visited Mr. McNamara on Wednesday, March 4, 1970. He was accompanied by the Bolivian Ambassador, Mr. Julio Sanjines-Goytia; Mr. Wenceslao M. Alba, General Manager of the Central Bank; and Mr. Roberto Capriles, General Manager of Empresa Nacional de Electricidad (ENDE). Mr. Alter was also present. Virtually, the whole meeting was devoted to a long, rambling, and not very well focussed presentation by the Minister. He emphasized strongly the frustrating aspects of the economic growth of the last decade, which he characterized as being growth without development. Weaknesses which he identified included failure to distribute benefits widely, a lack of geographical and inter-sectorial integration, decline in real wages, and growth in unemployment. The middle class, he asserted, was losing faith in the future. The recent political developments in his country can only be interpreted against the background of these failures. The "Young Turks" and the military were in an alliance, which had as its common element a strong nationalism.

He went on to outline the short-term strategy which the Government was pursuing. It includes a monetary and fiscal program which he had been discussing with the Fund, financial reform, and the establishment of a "mobilization fund" through which external resources would be channeled to the private sector and to local communities, in order to get things moving. Over the medium term, he would hope that substantially greater efforts could be made to develop processing of minerals, tap unused labor resources, and stimulate local institutions to take more initiative and responsibility. He was particularly interested in setting up a project preparation fund, which would prepare studies through the final engineering stage, particularly in the field of mineral processing. Such "inter-sectorial integration" was badly needed. In agriculture, he was against colonization projects and would try to rationalize the allocation and make better utilization of manpower where it was now located in the countryside.

During the course of the meeting, several attempts were made by Mr. McNamara to get the Minister to focus specifically on how the Bank could help in giving support to the immediate program of fiscal and exchange reform, which the Minister has been discussing with the Fund. The Minister was very vague. While expressing general dissatisfaction with the discussions he had been holding in the Bank during the previous week, he was unable to define any specific proposals. It was pointed out to him

President has seen

March 12, 1970

that IDA had plans for a third livestock project, an education project, and a power project, for which commitments totalling US\$13 million might be made over the next 9 months or so, if his program, agreed upon with the Fund, were carried through. He did not seem impressed.

The Minister appeared to be under great strain throughout the discussion. He clearly would like to have obtained a more dramatic offer of assistance from the World Bank, which could help him in dealing with the various conflicting forces within his Government. During the discussion, Mr. Alter observed that, while the Bank was not prepared at this time to offer its assistance in aid coordination as had been previously requested by the Minister, the Bank was prepared to consider what role it might perform in this respect, after the economic report which is now under preparation had been discussed with the Bolivian authorities.

cc: Mr. Knapp
Mr. Skillings

OFFICE MEMORANDUM

CONFIDENTIAL

DECLASSIFIED

DATE: March 3, 1970

TO: Mr. Robert McNamara

FROM: Gerald Alter *ga*

NOV 28 2012

WBG ARCHIVES

SUBJECT: BOLIVIA - Visit of Finance MinisterIntroduction

1. The Minister of Finance of Bolivia, Mr. Antonio Sanchez de Lozada, accompanied by Ambassador Sanjines, is coming to see you at 3:30 p.m. on Wednesday, March 4. Early in February, Bolivia and the Fund held discussions in La Paz designed to lead to a stand-by arrangement. The discussions were suspended, however, because the Government was not then ready to take the exchange rate, fiscal and monetary measures which the Fund believes are necessary in order to justify a stand-by, and which we strongly support. However, the Minister of Finance believes that the Government will adopt the measures, if at the same time, the Bank, the IDB and the U.S. Government will agree to a long-term development finance package. It is such a package that he has come to Washington to discuss.

The Minister

2. The Minister, who is about 36, was brought up in the United States, and speaks Spanish with a U.S. accent. His father, Enrique de Lozada, was a prominent political scientist who was in exile in the United States for 20 years prior to the Bolivian revolution of 1952. For much of that time he taught at Williams College in Massachusetts. During the War he acted as an advisor on Latin American Affairs to Mr. Nelson Rockefeller. After 1952, he became Ambassador to the United States and then to Venezuela. He was exiled again and now lives in Paris. His son Antonio, the present Minister, attended U.S. schools, obtaining a masters degree from Cornell in agricultural economics. In 1960-61 he worked with Operacion Triangular's Advisory Group for IDB. He later became Vice-President of COMIBOL (the State agency managing the major mines). The Minister and a brother decided to invest the family funds in a mining (lead, zinc, tin) enterprise in Bolivia, "IRIS Mines". Around 1967, the enterprise held negotiations with IFC for an IFC investment, but these did not reach a successful conclusion because of certain unsettled nationalization claims affecting one of the Lozada properties. The enterprise was able to obtain finance elsewhere and has prospered. Mr. Lozada was close to former President Paz Estenssoro as his father had been. Mr. Lozada became Minister of Finance in late September 1969 at the time of the Ovando revolution. In the Ovando government he has usually voiced more moderate policies, but his position is sometimes heavily influenced by the political rivalry between himself and the Minister of Mines and Petroleum, Mr. Marcelo Quiroga Santa Cruz, a strong supporter of the nationalization of Gulf. Mr. Lozada mixes a vociferous nationalism with a fairly practical bent. He is very anxious that Bolivia reach a settlement with Gulf, although here his rivalry with Quiroga may interfere with his supporting the best policies.

President has seen

March 3, 1970

Economic Background

3. A Bank economic mission which visited Bolivia in August and September 1969, is now completing its report, a draft of which we expect to be able to transmit to Bolivia for comment within the next two or three weeks. The report will attempt to lay out a realistic five-year public investment program for the country, based on the assumption that a rate of growth in GNP of 5 percent a year is the best Bolivia can hope for in the medium term. The report will also say, however, that unless initial problems of financial and economic management can be overcome, even this modest objective will not be attainable. In particular, the present crisis in public finances must be resolved in a way that not only permits the Government to keep up with its current bills (which it is not now doing) but also leaves some funds available to expand essential public services (like education), and make a contribution to public investment. The fiscal problem existed prior to take-over by Ovando, but was aggravated afterward, in part because of the disappearance of oil receipts from Gulf. Another consequence of the nationalization of Gulf was capital flight which is believed to be continuing. The effect of this on the balance of payments has been counteracted by exceptionally high metal prices in the past six months. The Minister is aware, however, that Bolivia is living on borrowed time in this respect.

4. Bolivia has been informed by the IMF that it cannot enter into a new stand-by arrangement (the last one expired in January) until a stringent new tax program is adopted, including a tax package recommended by an OAS team. The Government has just approved a budget with an apparent deficit of 154 million pesos (\$13 million) which the Fund believes will in fact amount to 235 million pesos (\$20 million), which could be financed only by inflationary means with serious consequences for prices and the balance of payments. In addition to taking stringent tax measures, the Fund believes that the country should either devalue (from 12 to 19 pesos to the dollar), or should adopt an austerity expenditure program, involving reductions in the size of the public service, including the Army, and a freeze on wages. If, as seems likely, this "austerity" course is out of the question politically, the Fund is, in effect, requiring devaluation as a condition of stand-by. We support the Fund's position, both because increased public savings are necessary to an effective development effort, and because we think that Bolivia should follow an exchange rate policy that will act as a promotional incentive for exports and discourage imports (including contraband which is said to be widespread). Devaluation should also make easier the fiscal adjustments necessary to increase public savings.

5. President Ovando informed the Fund mission that he in general agreed with this diagnosis and was prepared to take the necessary fiscal measures and to devalue. However, he said that, in order to make such a course politically acceptable, it should be associated with a program of

March 3, 1970

long-term development finance from the Bank, the IDB, and the U.S. Government. He also expressed interest in a renewal of U.S. military assistance. The Minister is visiting Washington for the purpose of exploring with us and with other institutions here the putting together of such a program.

Discussions So Far

6. The Minister and his colleagues (including the General Manager of the Central Bank, Mr. Wenceslao Alba, and the General Manager of the Government power company, ENDE (an IDA beneficiary) Mr. Roberto Capriles), have been holding discussions with the Fund, the U.S. Government, the IDB and us. These discussions so far have ranged over five principal problems:

(a) Short-term monetary and fiscal problems:

The Minister has reiterated his agreement with the Fund's diagnosis, and says that he is hopeful the Government will adopt these if the long-term development finance program is arranged. We are not sure that in fact, the Government is willing to take such politically difficult action, but the Minister's position nevertheless deserves support.

(b) Development Program:

The Minister has indicated that the Government is especially anxious to arrange new development programs in the agricultural, mining and metal-processing sectors. To this end he was extremely interested in knowing the findings of our recent economic mission with respect to investment strategy. Although the report is not ready to hand over, members of the mission have discussed with him the proposed strategy orientation of the report, and the shape and size of a proposed five-year public investment program. The Minister agrees with the mission's diagnosis for agriculture and mining, but he feels that we are unduly cautious about metal-processing industry, whose development he believes is important to lift Bolivia above the level of a simple export economy. In response to his suggestions in this area, we are considering sending one or two people from the Industrial Projects Department to Bolivia to make a diagnosis of the problem. Incidentally, the Minister claims that he seeks help in this sector, in part as an antidote to package deals which are being offered to Bolivia by equipment suppliers in Germany, Eastern Europe and Russia with medium-term credit.

In addition to discussing with the Minister the economic mission's suggested investment program, we have reviewed with him several projects now in preparation for possible IDA assistance. We do not think Bolivia is creditworthy

March 3, 1970

for loans on Bank terms, except for an enclave project like the natural gas pipeline. We have told him that if the Government adopts the needed fiscal and monetary measures, we would be able to undertake a fairly active program, including new livestock, education and power credits in fiscal 1971, and active project preparation work in other sectors. This program is outlined in paragraph 9 below.

(c) Financial Institutions:

The Minister would like the Bank and the Fund to study possible measures to improve the organization of Bolivia's financial institutions. The key to the approach would be a reorganization of the Central Bank, splitting off its commercial section, entrusting it with supervisory functions that are now dispersed among other agencies, and giving special attention to finance for agriculture, mining and industry. Both the Fund and we will have difficulty in making staff available for such a visit, but if the Fund can organize the main effort, we shall endeavor to find an outside consultant to work on development finance institutions.

(d) Compensation of Gulf:

Discussions have just concluded in Madrid between the Spanish Government and a Bolivian mission, about possible operation of the former Gulf oil and gas properties by a Spanish Government agency on contract to Bolivia. The Bolivian Government is now presumably considering the Spanish proposals, which are supported by Gulf (and, confidentially, were invented by them). The proposed arrangements would cover marketing of petroleum, finance for the continued development of the oil and gas fields, and finance and management for the pipeline. The Government would receive in revenues somewhat more than it received from Gulf prior to nationalization, the Spanish company would deduct its costs plus a fixed fee, and the residual profits would be paid to Gulf as compensation for the nationalized properties, until 1997 when Gulf's concession was to expire. We have told the Minister of Finance that we think this is a practical solution, resolving in one package all the problems resulting from nationalization. It offers the best prospect of getting the gas pipeline started again quickly. The Minister feels that it will not be easy for Bolivia to accept such a program, in part because newspapers have reported that Gulf is behind the idea, and in part

March 3, 1970

because of the open-endedness of the compensation arrangement. The Minister says that he would prefer a fixed amount of compensation, although we have mentioned to him that the arrangement has the advantage that compensation would be linked to Bolivia's ability to pay. It is still in fact an open question whether the Spanish solution will be practicable. We feel that the Bolivians should be encouraged to negotiate seriously on the Spanish proposal. If such a negotiation is not successful, the Bolivians and Gulf could submit the issue of compensation to arbitration or conciliation under the ICSID Convention or to ad hoc arbitration or conciliation using ICSID rules. Mr. Broches thinks both these approaches feasible ones. These possibilities have been discussed with the Bank by the Bolivian Ambassador and apparently President Ovando has some sympathy for them. Of course, settlement of the issue of compensation would still leave technical and financial questions in connection with the pipeline project still outstanding.

(e) Consultative Group:

When the Minister first arrived in Washington, he asked whether the Bank would be prepared to form and preside over a consortium or consultative group, in order to organize the program of foreign lending which the Minister would like to take back with him. I told the Minister that I felt that it was inappropriate for the Bank to consider such a role while Bolivia was still undecided about crucial issues of financial policy and before the report of the Bank's economic mission had been completed, and discussed with them. I am doubtful in fact whether the Bank's contribution in Bolivia, compared to that of AID and IDB is large enough to warrant our leading a consultative group. However, I would not rule out the possibility of our helping Bolivia in aid coordination in some fashion if Bolivia adopts suitable economic and financial policies, and after checking with Mr. Knapp, I did not close the door entirely in my discussions with the Minister.

7. The Bolivian delegation has also had discussions with the U.S. Government and the Inter-American Development Bank with which they seem satisfied. The U.S. people have informed us that they told the Bolivians that they could not consider new lending as long as the Gulf issue was outstanding, but that once it were settled they would consider sympathetically a request which the Minister has made for a line of credit of some \$5 million for working capital for mining and industry. The IDB expects in 1970 to approve only one loan, for a tin ore concentration project (which does not need budget support). This is a \$21 million project to which IDB

March 3, 1970

would contribute \$12 million and the German Government \$4 million. A proposed highway project for IDB is still at the study stage, and IDB staff recognize that it would be impractical to proceed with this while Bolivia is experiencing critical fiscal problems.

8. The Minister has arranged for a small, informal meeting of agencies, under the chairmanship of the Chairman of CIAP, to take place on the morning of Wednesday, March 4, just prior to your meeting with him. He is hoping that this meeting will give him moral support for a long-term development assistance program. CIAP's formal review of the Bolivian economy had been scheduled for last week, but was postponed at the request of the Bolivian Government (as strongly suggested by the U.S.) I will report to you on the results of the meeting at CIAP before you see the Minister.

Topics Likely to be Raised by the Minister

9. The Minister may raise with you the following topics:

(a) Economic report:

Although the economic report is still not ready and the features we discussed with him were explicitly preliminary and in confidence, the Minister has been saying to others in Washington that the report's assumption of a 5 percent growth rate for the economy is too conservative. He may well repeat this to you. Needless to say, we believe that a 5 percent growth rate is a realistic compromise between a "do nothing" policy and a program so ambitious as to be unattainable. Bolivia's economy, and in particular its ability to generate savings internally, are especially weak, and the country will be doing very well indeed if it is able to attain 5 percent growth. You may wish to say that even the 5 percent rate will not be achieved unless appropriate fiscal and exchange rate policies are followed. //

(b) Advisory Help

The Minister may also raise his proposals for advisory assistance in the field of metals processing and in the field of development finance. You might assure him that we shall do everything we can to help in this respect subject to the availability of staff. *we will do*

(c) New lending:

The Minister may want to confirm with you what kind of lending program IDA is prepared to follow in the near future. You could respond by saying that if a suitable short-term

March 3, 1970

financial and monetary program were adopted, and if satisfactory progress were made toward compensation of Gulf, the following three proposed IDA credits could be made within the next nine months or so:

(i) Third livestock project: The report of the appraisal mission is now nearing completion. While we may wish to hold pre-negotiation discussions in Bolivia, we should be ready by mid-year to invite negotiators, so that the credit could be made before the Annual Meeting. We are thinking in terms of a credit of about \$6 million.

(ii) Education: A secondary school education project was identified and prepared last year under the Bank/UNESCO Cooperative Program. An appraisal mission was scheduled for January, but we have postponed this because of the fiscal crisis. Once this is resolved, we would be prepared to reschedule the appraisal and proceed with a credit of \$2-3 million. This credit could be made by the end of 1970.

(iii) Power: We have been asked by the Bolivian Power Company, a Canadian company that supplies energy to the La Paz and Oruro areas, for a second IDA credit of \$5 million, similar to that we concluded in 1964, to enable them to expand their generation and distribution capacity. This company, being foreign owned, is in a somewhat vulnerable political position and the Government appears to be divided as to whether or not it should act as a borrower again on the company's behalf. The Minister of Finance seems opposed, but some other members of the Government are not. You might, however, mention to the Minister that this is a third project that could be brought to a conclusion fairly soon if the Government so wishes.

In addition to these projects that would result in lending operations fairly soon, we have for some time been helping the railways to prepare an investment program that could ultimately also lead to IDA finance. The Government has told us that it is prepared to take important steps needed to eliminate the burden the railways now place on the budget. At present a request from the railways for technical assistance is before the UNDP. We are supporting the request and are prepared to act as executing agency when it is approved. We hope that the technical advisors will prepare an investment program which could be the object of an IDA credit of some \$4 million in fiscal 1972. The Minister believes that the transport requirements of the mining sector will call for greater railway investments than this. We are doubtful,

March 3, 1970

but will bear his point in mind when appraising the railways investment program. Over and above these four sectors where project preparation has already progressed, the economic report will recommend pre-investment studies in agriculture and mining, in which we might assist or enlist the help of other agencies.

(d) Consultative Group:

Finally the Minister may ask you whether the Bank would be willing to organize and lead a consultative group. You may wish to say that it would not be possible for us to make a firm commitment on this while such important questions of economic and financial policy are still pending and before the economic report has been discussed with the Government. You could hold hope, however that if these conversations go well and if the Government assumes an attitude of adopting measures to increase public savings and prepare an effective development effort the Bank would consider how to best assist Bolivia in aid coordination.

Yes but would be little value unless firm & full action were taken

Topic that You May Wish to Raise

10. If the conversation does not otherwise lead to it, I believe it would be useful for you to raise with the Minister our concern, not only with the Gulf problem, but with the general subject of financial management. Without action on taxes and exchange rate, as recommended by the Fund, it is difficult to see how we could make a case to our Executive Directors for any lending assistance at all, IDA funds being expressly reserved for countries that are pursuing policies that are conducive to economic growth.

cc: Mr. Broches/Scott
Mr. Cope
Mr. Skillings

3

OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: November 13, 1970

FROM: Gerald Alter *GA*SUBJECT: Meeting of Mr. McNamara with Mr. Adolfo Linares,
President of the Andean Development Corporation

Mr. McNamara met on November 12, 1970 with Mr. Adolfo Linares, President of the Andean Development Corporation, and Mr. Enrique Vial, Vice-President (see my briefing memorandum of November 10, 1970). Mr. Linares described the set up of the Andean Development Corporation and its major objectives. He emphasized that they were proposing to concentrate on the industrial sector with particular reference to projects of multinational significance. He feels the Andean Development Corporation has a special capability for action on multinational projects and, in cooperation with the Board set up under the Act of Cartagena, they may also become involved in industrial planning and programming. They have a clear mandate from the governments of the region to identify, promote, and finance industrial projects which will contribute to the economic integration of the area.

They have already made an inventory of projects in the region as the result of the work of a mission which has recently returned from visits to each country. The report of this mission will be made available to the World Bank. It was agreed that the Andean Development Corporation would designate a member of their staff to have further discussions with the World Bank on possible areas of collaboration. Mention was made of the possibility of providing some assistance in pre-investment work and project preparation. It was noted that the World Bank and IFC already are involved in financing industrial development through the industrial development banks in Colombia, Ecuador and Venezuela. Some of the projects may well lend themselves to World Bank financing through these channels.

Some attention is being given also to infrastructure and transport services directly related to industrial projects. This is particularly true of the less developed countries in the region, namely Ecuador and Bolivia. In these countries also industrial projects of strictly national interest in the short-term are considered suitable for the Corporation's attention. In the infrastructure field, mention was made of power projects in Ecuador. (It was not clear why the Andean Development Corporation need concern itself with this sector, in view of the availability of finance from other sources.)

During the course of the discussion, mention was also made of their interests in promoting a steel project of an economic size in the area. The World Bank has recently held discussions with the Venezuelan authorities on possible involvement in the steel sector in Venezuela.

cc: Messrs. Gutierrez, Fuchs, Diamond, Skillings, Frost, Zinman,
Dosik, Wyss, Guerra.

Galter:pa.

Py
send
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to
Mr. Denton
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11/20

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: November 10, 1970.

FROM: Gerald Alter and Edgar Gutierrez

SUBJECT: Briefing for your meeting with Mr. Adolfo Linares, President of the Andean Development Corporation, November 12, 1970.

1. Mr. Linares, a Bolivian, is a former President of the Bolivian Development Corporation, and before his appointment as President of the Andean Development Corporation, held important positions in the staff of the Inter-American Development Bank, first in Washington and later in IDB. He supported multinational studies for developing the Rio de la Plata basin. He is an engineer by profession, with no formal training in economics and not extensive financial experience. Mr. Linares is generally considered a person of integrity, good will and administrative ability.

2. The Andean Development Corporation has been set up recently by the Governments of the same six South American countries - Bolivia, Colombia, Chile, Ecuador, Peru and Venezuela - which signed the Agreement of Cartagena for establishing the sub-regional economic integration scheme known as the Andean Group. Venezuela has not yet ratified and joined the Cartagena Agreement, but is a member of the Corporation, which has its seat in Caracas.

3. The Agreement establishing the Corporation was signed in Bogota in 1968 and the institution came formally into existence in January, 1970, ratified by the above mentioned six countries, which constitute its full membership. It has an authorized capital of \$100 million and a subscribed capital of \$25 million. The subscribed capital is distributed in six series "A" shares of \$1 million subscribed by each of the six Governments directly or by the public agency they may designate. The remaining \$19 million of subscribed capital is represented by 3,800 series "B" shares of \$5,000 each, distributed in portions of \$4.5 million each for Colombia, Chile, Peru and Venezuela, and of \$0.5 million each for Bolivia and Ecuador. The serie "B" shares may be subscribed by Governments, public agencies or private persons, but the latter holdings cannot exceed 40 percent of the corresponding country share of this series, thus assuring public control of the institution.

4. The objectives of the Corporation are to provide financial and technical assistance for the creation of new enterprises producing goods or services and for the modernization and expansion of existing ones. It may do so directly or through financial intermediaries in the countries, and it may provide financing through loans or equity participation. Though the emphasis is placed on multinational projects, purely national projects are not excluded from its field of activity. As regards infrastructure projects, the Corporation would only undertake studies and then, only those directly related to needs of goods or services productive enterprises.

5. Mr. Linares' visit is probably intended to explore the possibilities of receiving financial assistance from the Bank and, to a lesser extent,

technical assistance. The IDB is already committed to give the Corporation such assistance, though no lending has yet taken place. U.S. A.I.D. has also expressed its support and is internally thinking of making the Corporation a first \$10 million loan. The Corporation is considering setting up a so-called Integration Fund, which would be something similar to the Central American Integration Fund, through which U.S. A.I.D. has channelled most of its financial assistance to the Central American Bank for Economic Integration (CABEI). The resources of the Central American Integration Fund are used for financing infrastructure projects, mainly highways.

6. As the Corporation is not yet fully staffed nor operating, we suggest that your meeting with Mr. Linares next Thursday could only be in the nature of a preliminary exploration of the possible forms and fields of cooperation between our respective institutions. On this basis you may wish to state the Bank's position somewhat along the following lines:

- (a) Express the Bank's sympathy and support to the Andean Group integration efforts and to the Andean Development Corporation, which will be one of its most important instruments of action;

- (b) Our willingness to consider in due course concrete proposals for financing specific investment projects including DFC types of operation, particularly in the industrial field, either of multinational or national character, which may be identified and developed by the Corporation itself or its member countries. As far as the Bank is concerned, the provision of whatever financing it may eventually be prepared to do through the Corporation, rather than directly to the final borrower, would depend on the extent to which the Corporation becomes a well established institution and gained actual operational experience - an approach which we are applying to CABEI in Central America;

- (c) As regards the IFC, it cannot, by statutory limitations, lend directly to the Corporation, but would also be in principle prepared to consider either loans to or equity participation in specific projects developed by the Corporation or channelled through it by its member countries;

- (d) Pending the materialization of concrete proposals for specific projects financing, there should be possibilities of cooperation between our two institutions in the field of technical assistance, including activities such as exploring and identifying possible investment projects, particularly in the industrial field; surveying priority fields for pre-investment studies; assisting in selection of consulting firms that the Corporation may be considering using and in preparing their terms of reference, both for pre-investment and feasibility projects; and other activities related to our mutual interest in developing the growth potential of the Andean Group as a whole or their individual members. Moreover, staff of the Corporation would be welcome for the courses offered by the EDI, particularly in the industrial field. Such possibilities of cooperation as may exist could better be explored in concrete terms at the level of our staffs.

7. Besides stating in general terms the Bank's position on cooperation, you

may also wish to explore Mr. Linares' views on topics such as the following:

(a) Degree of emphasis that the Corporation intends to place on financing projects directly or through national financial intermediaries;

(b) Prospects for creating an Integration Fund for financing regional infrastructure investments. (In Central America, a similar fund has concentrated in infrastructure projects replacing, rather than adding to, the external resources which could be provided to the region by external agencies);

(c) Attitude toward and contemplated treatment of private external capital. (The Andean Group countries are elaborating a sub-regional agreement on this subject which, if very restrictive, as it is likely to be, could adversely affect the region's growth potential).

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: November 10, 1970.

FROM: Gerald Alter and Edgar Gutierrez

SUBJECT: Briefing for your meeting with Mr. Adolfo Linares, President of the Andean Development Corporation, November 12, 1970.

1. Mr. Linares, a Bolivian, is a former President of the Bolivian Development Corporation, and before his appointment as President of the Andean Development Corporation, held important positions in the staff of the Inter-American Development Bank, first in Washington and later in IDB supported multinational studies for developing the Rio de la Plata basin. He is an engineer by profession, with no formal training in economics and not extensive financial experience. Mr. Linares is generally considered a person of integrity, good will and administrative ability.

2. The Andean Development Corporation has been set up recently by the Governments of the same six South American countries - Bolivia, Colombia, Chile, Ecuador, Peru and Venezuela - which signed the Agreement of Cartagena for establishing the sub-regional economic integration scheme known as the Andean Group. Venezuela has not yet ratified and joined the Cartagena Agreement, but is a member of the Corporation, which has its seat in Caracas.

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President has seen

technical assistance. The IDB is already committed to give the Corporation such assistance, though no lending has yet taken place. U.S. A.I.D. has also expressed its support and is internally thinking of making the Corporation a first \$10 million loan. The Corporation is considering setting up a so-called Integration Fund, which would be something similar to the Central American Integration Fund, through which U.S. A.I.D. has channelled most of its financial assistance to the Central American Bank for Economic Integration (CABEI). The resources of the Central American Integration Fund are used for financing infrastructure projects, mainly highways.

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(b) Our willingness to consider in due course concrete proposals for financing specific investment projects including DFC types of operation, particularly in the industrial field, either of multinational or national character, which may be identified and developed by the Corporation itself or its member countries. As far as the Bank is concerned, the provision of whatever financing it may eventually be prepared to do through the Corporation, rather than directly to the final borrower, would depend on the extent to which the Corporation becomes a well established institution and gained actual operational experience - an approach which we are applying to CABEI in Central America;

(c) As regards the IFC, it cannot, by statutory limitations, lend directly to the Corporation, but would also be in principle prepared to consider either loans to or equity participation in specific projects developed by the Corporation or channelled through it by its member countries;

(d) Pending the materialization of concrete proposals for specific projects financing, there should be possibilities of cooperation between our two institutions in the field of technical assistance, including activities such as exploring and identifying possible investment projects, particularly in the industrial field; surveying priority fields for pre-investment studies; assisting in selection of consulting firms that the Corporation may be considering using and in preparing their terms of reference, both for pre-investment and feasibility projects; and other activities related to our mutual interest in developing the growth potential of the Andean Group as a whole or their individual members. Moreover, staff of the Corporation would be welcome for the courses offered by the EDI, particularly in the industrial field. Such possibilities of cooperation as may exist could better be explored in concrete terms at the level of our staffs.

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(a) Degree of emphasis that the Corporation intends to place on financing projects directly or through national financial intermediaries;

(b) Prospects for creating an Integration Fund for financing regional infrastructure investments. (In Central America, a similar fund has concentrated in infrastructure projects replacing, rather than adding to, the external resources which could be provided to the region by external agencies);

(c) Attitude toward and contemplated treatment of private external capital. (The Andean Group countries are elaborating a sub-regional agreement on this subject which, if very restrictive, as it is likely to be, could adversely affect the region's growth potential).

4

OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: December 1, 1970

FROM: Gunter K. Wiese *W*SUBJECT: Meeting of Mr. McNamara with the Minister of Finance of Bolivia,
Mr. Flavio Machicado

The new Bolivian Minister of Finance, Mr. Machicado, called on Mr. McNamara yesterday. He was accompanied by the Bolivian Ambassador, Mr. Sanjines (it was the Ambassador's last day in office), Central Bank President Wenceslao Alba, Alternate Executive Director Oscar Vega Lopez and Minister-Counselor Antonio Cespedes.

The conversation which lasted about twenty-five minutes was of a fairly general nature. The Minister stressed Bolivia's desire to work closely together with the World Bank Group. The Government attached high priority to the reconstitution of the Gas Pipeline project and to the proposed Third Livestock loan. The Government had also just asked IDA to consider a new credit of about \$5 million for the further expansion of the Bolivian Power Company, Ltd. and of ENDE. In the months to come, the Government was likely to present further financing requests to the Bank.

The Minister went on to outline in broad terms the new Government's approach to Bolivia's development problems. He emphasized that Bolivia would try to maximize the generation of domestic savings and to minimize external borrowing which would be related only to high priority projects. These would first and foremost be in the field of social infrastructure. Other fields considered high priority by the present Government are projects related to the economic integration of the Andean Group, projects for the development of Bolivia's huge forest resources and those for the development of small mines. In the field of electric energy, the Government is going to defer for a long time the development of large hydroelectric sites. Attention would, however, be given to the rehabilitation of the railroads which he considered to be more justified and economical than the authors of the recent transport study seemed to believe. Nevertheless, the Government would first have to make some difficult decisions on the coordination between rail and road transport. In concluding, the Minister reported that the Government had embarked upon a program for studying the feasibility of industrial projects. There were, however, projects where investments would soon be made without lengthy studies since the economic justification was obvious already.

Mr. McNamara thanked the Minister for his presentation and confirmed that the Bank and IDA, too, were giving high priority to reconstituting the Pipeline project and to reaching agreement with the Government on the Third Livestock credit.

cc: Mr. Fajans
GKWiese:pat/pv

cc: Mr. Knapp
Mr. Escobar

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: November 30, 1970

FROM: Gunter K. Wiese *GW*SUBJECT: Briefing Paper - Meeting with Finance Minister of Bolivia

1. The following are to call on you at 6:15 today:

Flavio Machicado - Minister of Finance
Julio Sanjines - Ambassador (his last day in office)

2. Mr. FLAVIO MACHICADO, Minister of Finance since last October, is 34 years old. He is an economist who has been closely associated with ILPES and ECLA and has also worked with the UNDP and IDB on an advisory assignment in Santo Domingo. Mr. Machicado was Undersecretary of Planning in President Ovando's Government and was appointed Minister of Planning in President Torres' cabinet before he replaced Mr. Antonio Sanchez de Lozada as Minister of Finance. Last Tuesday, he reviewed our relations with Bolivia and proposed lending operations with a mission headed by Mr. Skillings. The Minister's English is poor and Ambassador Sanjines will act as interpreter.

3. A tabulation setting out our recent operations and those proposed in the country program, approved on June 24, 1970, is appended.

4. The following summarizes our present activities in Bolivia in the light of last week's discussions of the Skillings' mission:

Gas Pipeline: work on the reconstitution of the project, for which the Bank made a loan of \$23.25 million in July 1969, is underway with the full cooperation of the Argentine and Spanish Governments, the IDB and Gulf Oil. While substantive progress is being made, it may not be possible to renegotiate our Loan and Guarantee Agreements beginning January 11, as scheduled three weeks ago. In view of the number of parties involved, and the complexity of the issues (particularly those relative to the Trust Agreement), a delay by a few weeks may prove necessary. The Bolivians are very anxious that the original schedule be observed: they want to resume construction next March and complete the project in October/November 1971.

Livestock: negotiations for a third livestock credit of \$6.8 million are scheduled for January 4. The Government appears to be disposed to reach agreement with IDA on meat export policy, organization of marketing, and interest rate to ranchers.

Power: the Government has just asked that IDA consider a new credit, of \$5 million or more, to be made in the middle of 1971. Proceeds of that credit would be relent to the Bolivian Power Company, Ltd. for its Cahua

President has seen

November 30, 1970

hydroelectric project and to ENDE for a final study of the Cochabamba-La Paz interconnection and the third unit at the Corani plant, financed with the IDA credit of 1964. A formal application will be sent shortly. Meanwhile, a supervision mission, presently on its way to Bolivia, will obtain preliminary information on the proposed project.

Railways: the Bank is the executing agency for UNDP financed technical assistance that started on November 1, 1970. An investment program, being drawn up by the consultants, should be ready by the end of 1971 for consideration by IDA as a basis for lending.

Education: an education project of \$2.0 million was defined in November 1968. However, a decision to proceed with this project is dependent on adequate fiscal performance, permitting the Government to meet a part of the capital cost and recurrent expenditure.

Agriculture: the Bolivians are working on several projects (pyrethrum, citrus fruit, grain silos and forest resources), which may qualify for IDA financing once the Government has demonstrated its ability to make adequate local contributions to their cost.

Mining: a mission is proposed in February 1971 to survey the sector and to discuss the possibility of our assistance.

5. Last week Minister Machicado agreed with Mr. Skillings that an economic mission will visit Bolivia in the middle of January after the CIAP meetings in Washington.

Attachment

cc: Mr. Knapp

Population: 4.8 m
Per Cap GNP: \$178

ANNEX 3

BOLIVIA - POSSIBLE EXPANDED LENDING PROGRAM THROUGH FY1976

	Through 1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	Total 1964-68	Total 1969-73	Total 1972-76
Agriculture																	
Livestock I	IDA				2.0												
Livestock II	IDA							1.4									
Livestock III	IDA								6.9*								
Forestry	IDA										3.0						
Agriculture I unidentified	IDA											5.0*					
Livestock IV	IDA												7.0*				
Agriculture II unidentified	IDA													8.0			
Mining																	
Minerals Development I (credit to private sector)	IDA										5.0*						
Minerals Development II (credit to private sector)	IDA													8.0*			
Power																	
ENDE I	IDA		10.0														
BPC I	IDA		5.0														
ENDE II	IDA						7.4										
BPC II	IDA							5.0									
ENDE III	IDA								7.0								
ENDE IV	IDA											7.5					
Gas Pipeline	IBRD							23.2									
Transportation																	
Railways I	IDA									4.0*							
Railways II	IDA											2.0					
Education																	
Education I	IDA								2.0								
Education II	IDA									5.0							
Education III	IDA												8.0				
	IBRD							23.2									
	IDA		15.0		2.0		7.4	1.4	13.9	11.0	13.0	14.5	15.0	16.0	17.0	46.7	69.5
	Total		<u>15.0</u>		<u>2.0</u>		<u>7.4</u>	<u>24.6</u>	<u>13.9</u>	<u>11.0</u>	<u>13.0</u>	<u>14.5</u>	<u>15.0</u>	<u>16.0</u>	<u>17.0</u>	<u>69.9</u>	<u>69.5</u>
	No.		2		1		1	2	3	2	3	3	2	2	3	11	12
IBRD Loans Outstanding																	
- including undisbursed								23.2	22.6	21.4	20.2	19.0	17.8	16.6			
- excluding undisbursed									17.4	21.4	20.2	19.0	17.8	16.6			
IDA Credits Outstanding																	
- including undisbursed			15.0	15.0	17.0	17.0	24.4	25.8	37.7	48.7	61.7	76.1	91.0	106.8			
- excluding undisbursed			2.1	7.9	12.9	13.8	15.1	17.0	20.6	27.6	36.5	46.5	59.3	71.8			

* Included in limited lending program (Annex 2)

South America Department
May 12, 1970

5.

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 4, 1972

FROM: Hendrik van der Heijden

SUBJECT: BOLIVIA: Mr. McNamara's Meeting with Bolivia's Economic Cabinet

1. On Monday, October 2, 1972, Mr. McNamara received Bolivia's Economic Cabinet consisting of Mr. Luis Bedregal Rodo (Minister of Finance), Mr. Julio Prado Salmon (Minister of Planning), Mr. Jorge Salazar Mostajo (President, Central Bank) and Mr. Willy Vargas (Economic Adviser to the President). Dr. Vega Lopez, Alternate Executive Director, attended the meeting. Also present were Messrs. Wiese and van der Heijden.
2. Finance Minister Bedregal Rodo handed Mr. McNamara a letter from Bolivia's President Banzer which contained a reply to a letter of August 2, 1972 in which Mr. McNamara had urged the Bolivian authorities to design and implement a program of remedial fiscal action. A copy of President Banzer's letter, as well as a translation into English, is attached. Mr. McNamara welcomed the Government's statement "we shall not shrink from any effort to adopt the most advisable measures in the fiscal and monetary field, however drastic they may be, if they will serve to bring about the well-being of the Bolivian people in the immediate future".
3. Finance Minister Bedregal Rodo elaborated on this statement by saying that the Government had decided to introduce, before the end of October 1972, a program of fiscal, monetary and exchange rate reform which was designed to protect Bolivia's balance of payments and to generate the public savings needed to carry out an expanded program of public investment. This program was being discussed with the IMF and, later in the week, would be presented to the Washington-based development financing agencies as well as to CIAP. The program was a stabilization-cum-development program and would need to be supported by "stabilization funds" from the IMF and USAID, as well as by development assistance from the Bank Group, the IDB and USAID. Planning Minister Prado Salmon added that Bolivia had decided to do its share, involving great sacrifices, and expressed the Government's wish that the Bank Group would give full support to the Government's plans. In particular, Minister Prado Salmon said, the Government would wish to know whether and when the various projects now being processed would be presented to the Bank Group's Board of Executive Directors. Second, the Government would wish to know whether it could count on the Bank Group for stating, in a subsequent CIAP meeting, the degree by which the Bank Group would concretely support the Government's program.
4. Mr. McNamara expressed his great satisfaction with the Government's plans to put a remedial program of financial action into effect at an early date. While the staff would have to review the Government's program, Mr. McNamara said that if the program would be found adequate in relation to Bolivia's needs, the Bank Group would stand ready to support the Government's development program by doing everything possible to accelerate the processing of the loans and credits now under consideration. At the request of

President has seen

October 4, 1972

Mr. McNamara, Mr. Wiese outlined the status of the various projects now being considered, and Mr. McNamara informed the Delegation that it could expect to receive, before its departure for Bolivia, an aide-memoire indicating what the Bank Group would be prepared to do in Bolivia, and what the Government could expect in the way of timing and magnitude of Bank Group lending. Mr. McNamara added that the Bank Group would be prepared to issue a statement, at the forthcoming CIAP meeting, which would outline the Bank Group's support for the Government's program, even if the Government would only make some general statements of intentions at that meeting. However, it would be necessary for the staff to become acquainted with the specifics of the Government's program before that meeting.

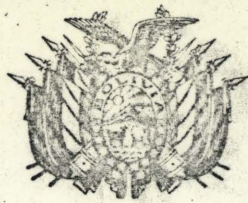
5. Finance Minister Bedregal Rodo indicated his desire and willingness to have further discussions with the staff and expressed, on behalf of President Banzer, his appreciation for the interest which Mr. McNamara took in Bolivia's development problems and policies.

Attachments

Cleared with and cc: Mr. Wiese

cc: Messrs. Knapp
Alter
Avramovic
Knox
Ross
Division Circulation

HvdHeijden:vl



Presidencia de la República

AEPR - N° 614/72

La Paz, Septiembre 21, 1972.

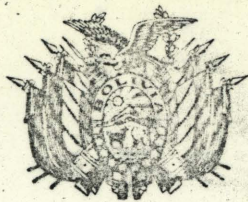
Al señor
ROBERT S. MCNAMARA,
Presidente del Banco Internacional
de Reconstrucción y Fomento.
Washington, D.C.,

De nuestra consideración:

Nos es grato dar respuesta a su atenta nota de 2 de agosto pasado, en la que hace un diagnóstico de la situación económica de Bolivia, así como de las medidas adoptadas por nuestro Gobierno, para conjurar problemas heredados del pasado. Hemos puesto especial atención en la referencia que usted hace al desequilibrio fiscal y la necesidad de encontrar soluciones viables.

Aprecio la claridad del análisis y los planteamientos del Banco, para proseguir con las gestiones que permitan concretar nuevas operaciones de crédito, que contribuirán a nuestro desarrollo económico y social.

En el año transcurrido hemos adoptado medidas de delicada comprensión política, pero necesarias para el futuro del país. El objetivo de reducir la brecha que separa a las naciones debido a su grado de desarrollo, busca la eliminación de los factores de dependencia que al presente impiden que los pueblos encuentren su propio destino. Por esa circunstancia, no escatimaremos esfuerzo alguno para adoptar las medidas más aconsejables, en el orden fiscal y monetario, por muy drásticas que sean, si con ello en un futuro inmediato vamos a procurar el bienestar de los bolivianos; para ello, confiamos en el respaldo decidido, ágil y oportuno de los organismos internacionales de crédito, particularmente del Banco Mundial, que ha comprendido la realidad socio-económica de Bolivia.



Presidencia de la República

- 2 -

La misión que concurre a la reunión inter-agencial del Subcomité del CIAP, tiene instrucciones de presentar la política que adoptará el Gobierno de Bolivia y demandar el compromiso cierto de que la concurrencia financiera internacional será suficiente y oportuna para los distintos sectores de la economía nacional.

Con este motivo, aprovecho la oportunidad de saludarlo atentamente.

Cnl. Banz

CNL. DAEM HUGO BANZEE SUAREZ
Presidente de la República de Bolivia

OFFICE OF THE PRESIDENT OF THE REPUBLIC

AEPR - No. 614/72

La Paz, September 21, 1972

Mr. Robert S. McNamara
President, IBRD

Sir:

We are pleased to reply to your letter of August 2, 1972, in which you make a diagnosis of the economic situation of Bolivia and of the measures taken by our Government to remedy the problems inherited from the past. We have paid special attention to what you have to say regarding the fiscal imbalance and the need to find viable solutions.

I appreciate the clarity of the analysis and proposals of the Bank for continuing the negotiations that will make it possible to arrange new credit operations which will contribute toward our economic and social development.

During the past year we have taken steps that were politically delicate but necessary for the future of the country. The goal of reducing the gap separating the nations on account of their degree of development requires elimination of the dependency factors which are presently preventing our peoples from achieving their destiny. Accordingly, we shall not shrink from any effort to adopt the most advisable measures in the fiscal and monetary field, however drastic they may be, if they will serve to bring about the well-being of the Bolivian people in the immediate future; to achieve this purpose, we are trusting in the resolute, flexible and timely support of the international credit organizations, especially the World Bank, which has shown awareness of Bolivia's socio-economic realities.

The mission that will attend the inter-agency meeting of the CIAP Subcommittee has instructions to present the policy that the Bolivian Government will adopt and to request a definite commitment that the international financial assistance forthcoming will be sufficient and timely for the different sectors of the economy.

Yours sincerely,

/s/ Daem Hugo Banzer Suarez (Col.)
President of the Republic of Bolivia

6

OFFICE MEMORANDUM

TO: Files

DATE: September 18, 1975

FROM: Adalbert Krieger

SUBJECT: Mr. McNamara's Meeting with the Minister of Planning and
Coordination of Bolivia, General Juan Lechin Suarez

The Minister of Planning and Coordination of Bolivia, Mr. Lechin, and the Ambassador of Bolivia, Mr. Capriles, met with Mr. McNamara on September 17, 1975. The purpose of their visit was to extend an invitation to Mr. McNamara, in the name of their Government, to visit Bolivia during his forthcoming trip to South America.

Mr. McNamara gladly accepted the invitation which would enable him to visit a country he had not included in his previous trip to South America. He indicated to the Minister he would be informing the Government of the date of his visit as soon as his travel plans had been finalized.

9/18

Mr. Lechin transmitted to Mr. McNamara the Government's appreciation for the important help the Bank is giving to Bolivia and indicated that on their part they were giving full support to all Bank projects under preparation. He also indicated that the Government was very much interested in improving and expanding the education program which it considered of crucial importance. Mr. McNamara replied the Bank also had identified education as one of the most important bottlenecks to the development effort of its member countries and was trying to assist them in any possible way to help them solve the problems in this crucial sector.

cc: Mr. Leibert, Division Chief LAC II

AKrieger: bg

OFFICE MEMORANDUM

TO: Mr. Robert McNamara

FROM: Adalbert Krieger

SUBJECT: BOLIVIA - Meeting with Minister of Planning

DATE: September 15, 1975

1. The Bolivian Minister of Coordination and Planning, General Juan Lechin Suarez, has requested a meeting with you sometime this week to personally extend on behalf of the President of Bolivia an invitation for you to visit his country. General Lechin will be in Washington through Friday, representing Bolivia during the annual OAS review of the Bolivian economy. We have had very good and close relations in the recent past with the Government and General Lechin in particular. If your schedule permits, I recommend that you receive General Lechin for a short courtesy visit.

Biographical

2. General Lechin has occupied the position of Minister of Coordination and Planning for slightly over a year and has emerged as one of the strongest Ministers in the Cabinet and as the leading Minister dealing with economic affairs. Prior to his position as Minister, he was for a number of years President of the Bolivian State Mining Enterprise. Before that he had a distinguished career in the Armed Forces. General Lechin is in his mid-fifties and is regarded as a serious thinker and astute politician. He appears to enjoy the full confidence of President Banzer.

RKanchuger:vl

Amb. of Bolivia

9/12
6:30
Wed 9/17
Dncw
9/16 OK.
B.

9/16

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Adalbert Krieger

SUBJECT: Your Meeting with the Minister of Planning and Coordination of Bolivia, General Juan Lechin Suarez

DATE: September 17, 1975

In preparation for your meeting with the Minister of Planning and Coordination of Bolivia, Mr. Lechin, I am attaching the following material:

- 9/17
- (a) The Briefing Paper for the Annual Meeting and a record of my meeting with the Bolivian Delegation.
 - (b) A record of my meeting with Mr. Lechin on Monday, September 15, 1975.
 - (c) We are preparing your visit to South America, and we are aiming for you to visit three countries, namely, Perú, Bolivia and Paraguay. Until we hear from Mr. Carlos Santistevan (Perú-Marcona), we will be unable to suggest a possible date. I recommend, therefore, that you indicate to the Minister that you will give him a reply on the date of your visit to Bolivia in the near future.

Attachments

AKrieger:bg

1975 BRIEFING PAPER -- BOLIVIA

I. BACKGROUND

A. Present Political Situation

With the crushing of an armed uprising in Santa Cruz last November, General Banzer further consolidated his political position and extended the life of his Government into an unprecedented fifth year. As a result, the Government was sufficiently strengthened to implement a number of politically difficult economic policies and decisions over the last year. These have included a restrictive wages and prices policy, increases in railroad and power tariffs and a decision to permit the privately-owned foreign power company in La Paz to continue in operation.

B. Recent Economic Developments

While economic prospects over the medium term are good, provided Bolivia enjoys continued political stability and makes progress in mobilizing its substantial potential in hydrocarbons, mining and agriculture, GDP growth in the short term is not likely to be much above the 5% growth achieved in 1974. There is likely to be a deterioration in the financial position during the current year and possibly 1976, as a result of diminished exports. Petroleum exports are likely to be lower this year than in 1974 despite a price reduction to about US\$12.50 per barrel (down from some US\$15, on average, in 1974). Mineral exports will be adversely affected by falling prices and the recent imposition of export quotas by the International Tin Council. On the other hand, imports can be expected to accelerate in the wake of higher investment (particularly for oil and gas exploration) and faster credit expansion. While capital inflows might increase considerably on the strength of recent loan commitments and accelerating investment, any gains in international reserves will be small. Net reserves of the Central Bank, which rose through March 1975, subsequently fell and by June 1975, were at US\$150 million, US\$20 million below their end-1974 level.

Central Government current revenues might decline by about 5% (in constant prices) in 1975 since reduction in export tax receipts will more than compensate for any revenue gains from improved administration of other taxes. Current expenditures can be expected to increase at the rate of GDP growth primarily as a result of an expansion in the work force. For the public sector as a whole, savings might decline to about one-half of their unusually high 1974 level, leaving an enlarged proportion of public investment to be financed through domestic and external borrowing. In particular, profits of the major State export enterprises, i.e., YPFB and COMIBOL, will decline appreciably

and net of taxes, would cover less than 20% of budgeted investment. Whereas net credit of the domestic banking system was reduced because of a substantial build-up of deposits by the export enterprises, the sector's requirements for domestic banking credit are likely to become significant towards the latter part of the year.

The rapid upsurge of price and wage increases which occurred in 1973 and early 1974 appears to have been brought under control. Prices since mid-1974 have been rising at an annual rate of 6.5% and real wages declined somewhat. Prices and wages were frozen at the beginning of 1975 and import duties reduced to combat inflation.

C. Country Lending and Operations Program

Third Window financing is under consideration for two projects this fiscal year -- Rural Development I and Water Supply I. The Table IVA five year lending and operations program is attached for information. Note should be made that Water Supply I has been advanced to the FY76 lending program. Current estimates for the Rural Development I and Water Supply I proposed loans are \$9 million and \$12 million respectively.

II. TOPICS FOR DISCUSSION

Power Sector

Although significant progress has been made by the Government in raising tariffs for urban power companies and communities, rate increases have lagged and been insufficient for the state-owned mining company, COMIBOL. As a result, the state-owned power generation company, ENDE, has not been able to earn the 9% rate of return required by the Electricity Code. (ENDE's average rate of return on unrevalued assets for the last three years has been 8.2%.) The Bank has taken the position that the appraisal of the proposed Fourth ENDE project depends on the Government's setting rates so that ENDE will be able to earn 9% on unrevalued assets (which would result in a rate of return about 50% lower if assets were to be revalued) and acceptance of the principle that any new project would provide for the periodic revaluation of assets and related adjustment of rates. Although no final agreement with the Government on the measures to be taken has yet been reached, we believe that the outstanding issues can be solved and have therefore tentatively scheduled a mission for mid-September.

III. DELEGATION

Col. Victor Castillo Suarez
Lic. Manuel Mercado Montero
Lic. Claudio Calderon
Lic. Miguel Delgadillo

Minister of Finance
President of the Central Bank
Adviser, Ministry of Finance
General Manager of the Central Bank

Col. Castillo Suarez (50 years). Prior to his appointment as Minister of Finance, he occupied a variety of military posts. He assumed the post of Minister in 1974. He has not taken a forceful role in economic planning or policy. The principal direction in economic development matters has come from Col. Castillo Suarez's half brother, the Minister of Planning, General Lechin Suarez. Col. Castillo Suarez is Bolivia's World Bank Governor.

Lic. Manuel Mercado Montero (61 years, economist). He graduated in Economics from Santa Andreas University in La Paz in 1948 and did post-graduate work in census proceedings at Columbia University in 1949. He taught statistics at the University of Santa Andreas from 1952 to 1969 and from 1968 to 1969 he also held the post of Deputy Dean of the Faculty of Economics. Lic. Mercado Montero has held the positions of President of a private Bolivian commercial bank and General Manager of the National Board of Social Security. He briefly held the position of President of the Central Bank in 1971 and was reappointed to that position in 1974. Lic. Mercado Montero is Bolivia's IMF Governor.

Attachments

Latin America and Caribbean Regional Office

TABLE IVA - OPERATIONS AND LENDING PROGRAMS BY COUNTRY AND FISCAL YEAR

COUNTRY NAME		BOLIVIA		POPULATION		5.5 MILLION				
OPERATIONS PROGRAM				GNP PER CAPITA IS		307				
PROJECT ID	PROJECT NAME	SOURCE	1976	1977	1978	1979	1980	1981		
6-BOL-AC-02	AGRIC. CREDIT II	IBRD				20.0				
6-BOL-AD-01	RURAL DEVT I	IBRD	13.0							
6-BOL-AD-02	RURAL DEVT II	IBRD			20.0					
6-BOL-AF-01	FISHERIES	IBRD				10.0				
6-BOL-AN-01	AGRO-INDUSTRY I	IBRD		15.0						
6-BOL-AN-02	AGRO-INDUSTRY II	IBRD				25.0				
6-BOL-AT-01	FORESTRY I	IBRD		15.0						
6-BOL-AT-02	FORESTRY II	IBRD					25.0			
6-BOL-DD-02	SMALL MINING CREDIT	IBRD		14.0						
6-BOL-DD-03	MINING CREDIT III	IBRD			21.0					
6-BOL-DD-04	MINING CREDIT IV	IBRD					40.0			
6-BOL-DD-06	MINING CREDIT II	IBRD	10.0							
6-BOL-FE-01	SECONDARY EDUCATION	IBRD		10.0						
6-BOL-EE-02	EDUCATION II	IBRD					30.0			
6-BOL-PH-04	ENDE IV	IBRD	24.3							
6-BOL-TA-01	AIRPORTS	IBRD			10.0					
6-BOL-TH-03	RAILWAYS III	IBRD				45.0				
6-BOL-WU-01	WATER SUPPLY I	IBRD		7.5						
6-BOL-WU-02	WATER SUPPLY II	IBRD					24.0			
OPERATIONS PROGRAM TOTALS										
	1964-68	1969-73	1974-78	1976-80	1976	1977	1978	1979	1980	1981
AMOUNTS										
IBRD		23.3	191.8	378.8	47.3	61.5	51.0	100.0	119.0	
IDA	17.0	23.6	19.7							
TOTALS	17.0	46.9	211.5	378.8	47.3	61.5	51.0	100.0	119.0	
NUMBERS										
IBRD		1	12	19	3	5	3	4	4	
IDA	3	4	3							
TOTALS	3	5	15	19	3	5	3	4	4	
LENDING PROGRAM TOTALS 3/31/75										
	1964-68	1969-73	1974-78	1976-80	1976	1977	1978	1979	1980	1981
AMOUNTS										
IBRD		23.3	157.4	255.4	47.0	40.4	38.0	60.0	70.0	
IDA	17.0	23.6	19.7							
TOTALS	17.0	46.9	177.1	255.4	47.0	40.4	38.0	60.0	70.0	
NUMBERS										
IBRD		1	9	15	3	3	2	3	4	
IDA	3	4	3							
TOTALS	3	5	12	15	3	3	2	3	4	

OFFICE MEMORANDUM

TO: Files *JK* DATE: September 9, 1975
FROM: R. Kanchuger, Loan Officer, LAC II
SUBJECT: BOLIVIA - Meeting with Bolivian Delegation to the Annual Meeting

1. A meeting was held on September 3 with members of the Bolivian Delegation. Present for the Bank were Messrs. Krieger, Wiese, de Vries, Greene, Leibert, Cavallotti and Kanchuger. Representing the Government of Bolivia were Minister of Finance, Victor Castillo Suarez and Messrs. Ormachea, Calderon and Delgadillo. The Executive Director for Bolivia, Dr. Barrios, was also present. The following topics were discussed.

Appraisal of the Fourth ENDE Project

2. It was agreed that the Bank Appraisal Mission for the proposed Fourth ENDE project will arrive in Bolivia at the end of the current month. It was further agreed that consistent with the Bank's earlier communication on the subject and the Government's reply thereto, that ENDE's rates would have to comply with the Bolivian Electric Code and be related to the periodic revaluation of assets.

Housing Program

3. The Minister expressed interest in receiving Bank financing in the housing sector. Mr. Krieger briefly explained the Bank's sites and services project in El Salvador which will be executed by the Salvadorian Development Foundation. He stated that the Bolivian Government might be interested in reviewing the El Salvador program to see if it can be applied to the Bolivian situation and instructed the Bank staff to make available the pertinent papers to the Bolivian representatives.

Third Window

4. Mr. Krieger noted that Bolivia was a candidate for receiving third window financing and that subject to the availability of such financing, consideration would be given to extending it to Bolivia in one or two projects this year. Dr. Barrios cautioned that the Board might set the per capita income requirements for receiving third window financing at a level which would be so low that it would prevent Bolivia from qualifying for such financing.

Bank of Boston

5. Mr. Ormachea explained that the Bank of Boston in cooperation with the Bolivian Government would be holding a series of investment seminars in the United States beginning in mid-October. He stated that he would appreciate the Bank's participation in such seminars. Mr. Krieger replied that the Bank would be happy to participate.

CEPCIES

6. Mr. Ormachea stated that Minister Lechin Suarez would be heading a Bolivian Delegation to the CEPCIES review to be held in Washington from September 15-19, 1975.

OFFICE MEMORANDUM

TO: Files
FROM: R. Kanchuger, Loan Officer, LAC II
SUBJECT: BOLIVIA - Meeting with Minister of Planning and Coordination

DATE: September 17, 1975

1. A meeting was held in Mr. Krieger's office on September 15 with the Bolivian Minister of Coordination and Planning, General Juan Lechin Suarez. General Lechin was accompanied to the meeting by the Sub-Secretary of his Ministry, Gaston Villa and the Economic Assistant to the President, Alberto Valdez. Messrs. Lehibert and Kanchuger were also present.
2. General Lechin stated that one of his country's highest priority projects was the financing of a gas pipeline to Brazil. The pipeline would go from the Santa Cruz gas fields to the Brazilian border city of Corumba. He asked Mr. Krieger if the Bank could help in financing such a project. Mr. Krieger replied that the Bank was not very active in financing pipelines, since private financing and supplier credits were often available for such projects. He called attention to pipeline projects in Ecuador and Peru which had been financed by suppliers without Bank assistance. General Lechin noted that the Bank's presence in the pipeline project was important because its prestige could be catalytic in attracting private financing. It was noted that the Bank would shortly be sending a mission to Bolivia to review the hydrocarbon sector. Mr. Krieger stated that this mission would be useful in determining whether the proposed pipeline might be an appropriate project for Bank financing. He asked Mr. Lehibert to carefully review the matter and advise him.
3. General Lechin expressed keen interest in the Bank organizing a Consultative Group for Bolivia. Mr. Krieger stated that a requisite for such an undertaking was to have a project list which would be sufficiently extensive to be of interest to participating nations and financing institutions. General Lechin replied that the material for such a list was available and it could be put in appropriate order within a relatively short period. It was agreed that the preparation of such a list would be discussed in detail over the next week by some of the members of General Lechin's delegation and Bank staff as a first step in considering a Consultative Group.
4. General Lechin stated that President Banzer had requested him to extend an invitation for Mr. McNamara to visit Bolivia. He therefore asked if Mr. Krieger could arrange for him to meet Mr. McNamara, so that he might personally extend the President's invitation.

Cleared with and cc: Mr. Lehibert, Div. Chief, LAC II

cc: Messrs. Krieger

Wiese, Director, LAC II o/r
Skillings, Actg. Director, LAC II
de Vries, Chief Economist, LAC
Bronfman, Div. Chief, LAC Projects
Schober, Trans. & Urban Projects
Green, Senior Economist, LAC II
Richter, LAC II
Ruderfer, LAC II

RKanchuger:vl

NOTES ON VISIT TO BOLIVIA
March 7-10, 1976

1. Bolivia's population of 5 1/2 million lives in an area of 425,000 square miles, roughly the size of Texas and California combined.
2. It is a country of immense contrasts. A relatively small, highly-educated, sophisticated elite (the young Finance Minister was educated at the London School of Economics, lived abroad for 25 of his 38 years, is married to a British wife, and now lives in an elegant colonial home passed on from father to son for generations) lives amongst the predominantly Indian population (approximately 60% are Indians) which appears not to have changed culturally and economically for several hundreds of years and continues, as it has in the past, to dull the effects of a harsh life by chewing cocoa leaves which act as a mild narcotic, dampening the effect of caloric deficiencies. The contrast between the life of the Indians on the cold, semi-arid, low-fertility soils of the Altiplano (the altitude of La Paz airport is 13,400 feet) and the lush, semi-tropical, rich, agricultural environment of Bolivia's Santz Cruz and Paraguay's eastern provinces is extraordinary.
3. Despite the relatively limited agricultural potential of the Altiplano, on which most of the population lives, the country has immense potential for development in its yet-to-be-exploited gas and petroleum resources, its unexplored but clearly present mineral resources, and its undeveloped low-lying, fertile agricultural lands. Achievement of this potential will require huge investments (made larger by the fact that Bolivia is a land-locked nation, huge in extent, requiring large transportation investment per unit of population and per unit of output); strengthening of its relatively weak economic institutions; and a very large domestic savings program to complement the large increase in external financial flows needed to finance the investments.

Although the majority of the Indians live outside the money economy (the average cash income per Indian family for the 10,000 families covered by our Ingavi Altiplano project amounts to \$75 per year), have very high illiteracy rates and low life expectancy, the country's poverty does not reflect the misery one sees on every side throughout Asia and much of Africa.

4. La Paz, with a population of one million, growing at a rate of close to 5% per year, enclosed in a "cirque-like" cup, the sides of which are geologically unstable, presents almost overwhelming problems of transportation, sewerage, housing, and unemployment. But six months ago a dynamic individual (the largest industrialist in Bolivia, who was president of the world's second biggest antimony company) was conscripted under the Civil Service Conscription Act to serve as Mayor of the city. In but a few months, he has brought in a team of 20 engineers, 3 lawyers and several financial experts, all "conscripted", to direct the preparation and implementation of an urban development plan for the area. It is imaginative (including increased tax collection, land stabilization, sewerage development, transport improvements, sites-and-services housing investments, etc.) but weak in certain technical respects: there appears to be inadequate emphasis on employment implementation; lack of control of the private automobile, excessive emphasis on major transportation investment, including a circumferential highway and a monorail system, and an attempt to do too much too soon without a proper analytical foundation.

5. General Banzer's government has provided a dramatic change from the economic, social and political anarchy which followed the revolution of 1952 (it was during those years that the miners defeated the army; the number of individuals employed in the mines doubled, while the output halved). Banzer, who came to power in 1971, rapidly and with what appears to be a far less repressive approach than is evident in, for example, Chile, Korea or Brazil, brought order out of chaos. But the current economic and social advances, as was emphasized by the Mayor of La Paz, is accompanied by a major flaw: the political stability on which it rests is dependent on one man, Banzer. If he were to be removed there are no institutions and no individuals who would assure continuity and order.

6. There appears to be a widespread feeling among many of the Banzer leaders that the danger of a Cuban-led insurgency in Latin America is great and that Bolivia, because of its strategic location and recent history of leftist activity, could expect to be a prime target. A newsman stated that, in view of what lies ahead, he would rather be a friend of the Communists than a friend of the US.

<u>DATE</u>	<u>TIME</u>	<u>GMT</u>		<u>REMARKS</u>
Mar. 6	0730	1230	Depart for Cuzco	Aeroperu arranged by COFIDE
Sat.	0830	1330	Arrive Cuzco	
	1000		Depart for Machu Picchu	Special autowagon
	1230		Visit to Machu Picchu and lunch	
	1700		Return to Cuzco	Autowagon
Mar. 7	0900		Visit Cuzco and its surroundings	
Sun.	1200	1700	Depart for La Paz	Special plane
	1415	1815	Arrive La Paz	Hotel La Paz (small suite)
	1500--1800		Tour of city	
	2000		Small informal "get acquainted" dinner by Finance Minister, Carlos Calvo, at his home. About nine couples will be present plus six Bank participants	
Mar. 8				
Mon.	0800--1000		Meeting with Economic Group at Presidential Palace to be attended by: Minister of Finance, Carlos Calvo Minister Planning & Coordination, Lechin Presidential Advisor, Violand Undersecretary of Planning, Valdes Executive Director of External Financing Institute, Ormachea	
	1010--1030		Meeting with President Banzer	at Presidential Palace
	1035--1310		Visit by car to Ingavi Rural Development project (at Jalsuri)	
	1315--1340		Signing (in Jalsuri) of Loan Agreement for Ingavi Rural Development Project by Mr. McNamara and President Banzer and Minister of Finance Carlos Calvo on behalf of Government	
	1345--1540		Lunch at Jalsuri with President Banzer	
	1755		Arrive at Hotel	
			Evening free	
Mar. 9				
Tues.	0800--0930		Meeting with top representatives from private sector (banking, mining and industry)	
	0935--1000		Briefing about urban development of La Paz	
	1005--1200		Tour of urban development sites in La Paz	by car
	1250	1650	Depart for Santa Cruz with President Banzer	Govt. plane (lunch served)
153)	1425	1825	Arrive Santa Cruz	Holiday Inn or Govt. accommodation
	1425--1445		Introduction to welcoming party of local leaders	
	1455--1800		Tour to see agricultural areas in Santa Cruz, with briefing by President Banzer	by helicopter
			Evening free	
Mar. 10				
Wed.	0540	0940	Depart for Asuncion	Govt. plane
	0800	1100	Arrive President Stroessner Airport	Hotel Ita Enramada
	0900		Meeting with President Stroessner	
	1000		Visit rural and eastern areas of Paraguay (area of Small Farmer Credit and Rural Development Project)	by plane to Coronel Oviedo by car to Caaguazu
	1400		Trip to Itapua Department (southeastern Paraguay). Flyover Parana River and sites of future hydroelectric schemes. Lunch during flight. Visit cooperatives at Hohenau, Obligado, Capitan Meza, etc.	

<u>DATE</u>	<u>TIME</u>	<u>GMT</u>		<u>REMARKS</u>
	1800		Return to Asuncion	by plane
	2000		Cocktail party hosted by Finance Minister, General Cesar Barrientos--guests will include other Ministers and some prominent members of private sector	Club Centenario
Mar. 11				
Thurs.	0700		Meeting with economic team	
	1000		Field trip to El Chaco, Western Paraguay visit to Mennonite colonies and coopera- tives of Loma Plata and Filadelfia	Presidential plane
	1500		Depart for Asuncion	Presidential plane
	1630		Arrive Asuncion	
	1700--1800		Open (after visitors have had chance to see the country, President Stroessner usually likes to have wrap-up meeting to exchange ideas on policies and programs that will improve their development efforts)	
	2115	0015	Depart Asuncion	Braniff 974 (D8S) one stop
	2345	0445	Arrive Lima	(La Paz) coach
Mar. 12				
Fri.	0110	0610	Depart Lima	Braniff 978 (DC8) nonstop
	0830	1330	Arrive Washington (Dulles)	(coach)

SB
March 1, 1976

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: March 31, 1976

FROM: Emil Ruderfer, ^{GR} Loan Officer, LAC IISUBJECT: BOLIVIA - Mr. McNamara's Visit of March 7 - 9, 1976A. INTRODUCTIONBackground

1. Mr. and Mrs. McNamara visited Bolivia from March 7 through March 9, 1976 at the invitation of President Banzer. They were accompanied by Messrs. Adalbert Krieger, Vice President for Latin America and the Caribbean, William Clark, Vice President for External Relations, Sven Burmester, Personal Assistant to Mr. McNamara, and Emil Ruderfer, Loan Officer, Latin America and the Caribbean. This was the first visit by Mr. McNamara to Bolivia. This memorandum highlights the principal impressions gained of Bolivia as a result of the visit and recapitulates the main items of importance to the Bank's future operations in Bolivia.

Timing and Objectives

2. Mr. McNamara's visit took place at a time when President Banzer had been in office for nearly five consecutive years. The purpose of the visit was twofold: (a) to enable Mr. McNamara to obtain a first-hand impression about Bolivia's potential and to learn about the Government's economic and social development programs; and (b) to evaluate Bank operations which are designed to help the Government to implement its investment programs. In order to achieve these objectives the program was prepared in such a way as to give Mr. McNamara maximum exposure to the Government's viewpoints regarding Bolivia's problems and prospects, while at the same time, permitting Mr. McNamara to form a judgement on how the Bank Group could assist the Government in furtherance of its objectives. In a series of discussions with President Banzer (see Annex I), with the Economic Team presided over by Minister Lechin, with representatives from the private sector (see Annex II), and from the visits to the Province of Ingavi in the Altiplano, to the city of La Paz, as well as a flight over the Departments of Beni and Santa Cruz, Mr. McNamara obtained first-hand impressions of the Government's efforts to maintain economic growth through an increase in productivity and income of the poorest 40% of Bolivia's population.

Arrangements

3. Mr. McNamara's visit as prepared by the Government with the assistance of staff from the Bolivia Program Division, was executed according to plan with the following two minor modifications: (i) Mr. McNamara gave an unscheduled press conference on Monday, March 8 at 17:30 in La Paz and (ii) President Banzer invited Mr. McNamara for an overflight of the Santa Cruz and the Beni regions on Tuesday afternoon, March 9. This flight took the place of a planned visit by helicopter to Santa Cruz only. Details of the visit are included in an "Itinerary for Mr. McNamara's Visit to Bolivia" which is attached to this memorandum.

March 31, 1976

B. SUBSTANCE OF DISCUSSIONSPolitical Setting and Economic Planning

4. The present Government, headed by General Banzer, came into power in August 1971. Since then President Banzer has survived a number of coups, the last of which was attempted in November 1974. This most recent attempted coup was quickly suppressed and President Banzer used the opportunity to suspend activities of all political parties, postponed elections from 1975 to 1980, and made important changes in appointments of Government officials. Various laws and decrees were promulgated to help bring political stability and sustained economic growth. Among these is a law that permits conscription of civilian technical experts for public service. The most recent conscripts under this law include such key persons as the Minister of Finance, the two Undersecretaries of Planning and Coordination and the Mayor of La Paz. Today, virtually all facets of economic management is in the hands of civilian technocrats, although most of the Ministers are military men. Messrs. Lechin, Minister of Planning and Coordination, and Calvo, Minister of Finance, play the key roles in formulating and implementing economic policies and investment programs. Presently, the Ministry of Planning and Coordination has prime responsibility for establishing sector priorities, preparing feasibility studies with the assistance of the National Preinvestment Institute (INALPRE), and controlling the flow of investments by way of the Project Committee which has the final say regarding approval of individual capital investment projects. The work of this Ministry is closely coordinated with that of the Ministry of Finance which is responsible for managing public finances, mobilization of savings and establishing priorities regarding external borrowing by way of the National Institute for Financing (INDEF). Although the work of these two Ministries is complementary, it is likely that a healthy competition will develop in the near future between them on decision-making regarding economic development strategy for Bolivia.

Economic Performance, 1974-1975

5. After current deficits in 1970-73, the central government achieved savings equivalent to one third of its capital expenditures in 1974. For the public sector as a whole, savings in 1974 exceeded 10% of GDP and covered nearly 90% of capital expenditures. On the balance-of-payments side, the terms of trade gain in 1974 was equivalent to about 11% of GDP and the trade surplus exceeded US\$150 million. GDP growth reached 6.5% but in spite of Government's efforts, the rate of inflation remained high. However, in 1975, the terms of trade deteriorated. Mineral exports fell by well over 20% as the volume of sales of most minerals fell and prices declined by approximately 13% on weighted average. Merchandise exports in 1975 declined by about 18%, while imports rose by nearly one third in the wake of the start-up of new public investment projects and the liberalization of imports for consumer durables and motor cars earlier in the year. The outlook for 1976 is for an improved fiscal and balance-of-payments position as Bolivia can be expected to obtain higher prices for its minerals and hydrocarbons in 1976. In addition, recent Government measures to increase prices of domestically consumed petroleum products should increase exportable surpluses.

March 31, 1976

Economic Development Strategy, 1976-1981

6. The Bolivian Economic Team explained that the main objectives of the Government's economic development strategy over the next five years would be threefold: (a) to accelerate growth of GNP per capita; (b) to improve income distribution; and (c) to create more productive employment opportunities. The Development Plan will also emphasize assistance to the rural and urban poor, and make Bolivia self-sufficient in food production. Labor intensive projects will be given priority, planning and selection criteria of development projects will be improved.

7. Investment priority will be given to consolidating projects in infrastructure and the productive sectors in the Departments of La Paz, Oruro, Cochabamba and Santa Cruz. The total five-year investment program is tentatively estimated at US\$3.7 billion (in 1975 prices). The public sector's share is likely to be about 70%, and the remainder will be investment by the private sector. About 25% of the total investment will be earmarked for the social sectors, 14% for agriculture, 18% for hydrocarbons and mining, 18% for transportation and 25% for industry, construction and services. Domestic savings are expected to finance about 62% of investment and the remainder would be contracted from external sources. In 1975 Bolivia's external borrowing amounted to about US\$455 million, compared to only US\$74 million in 1974. Total public debt contracted up to 1975 was estimated at US\$1.6 billion of which about US\$950 million was disbursed. Government officials stated that Bolivia's prospects for external borrowing are likely to be favorable and the establishment of a consultative group will undoubtedly help the country's standing abroad. These officials stressed that great prudence will be exercised in external borrowing. In addition, efforts to create a capital market and establish additional development banks to capture domestic savings will be intensified during the next five years.

Bank Group Assistance

8. As was expected, the Government requested of Mr. McNamara the following Bank assistance for Bolivia: (a) establishment of a resident mission; (b) formation of a consultative group; (c) making of a technical assistance loan to help finance feasibility studies and assistance for institution building, export promotion and planning; (d) financing of the gas pipeline to Brazil as part of a regional project; (e) financing of tin buffer stock; (f) greater IFC involvement in Bolivia; and (g) continuation of lending to Bolivia on softer terms than Bank loans proper.

9. Mr. McNamara said that he was concerned with the low level of domestic savings and that he was pleased to hear that the Government will make efforts to increase that level to 15% through higher taxation on consumer goods, better tax collections, and lower consumption over the next few years. Regarding the request for a Bank resident mission, Mr. McNamara said that he will discuss this issue with Mr. Krieger during budget preparation. Responding to the request for a consultative group for Bolivia, Mr. McNamara said that he favored very much the establishment of a consultative group for Bolivia, provided the following two conditions were met. First, the Government

March 31, 1976

has prepared a well conceived development program. Second, an adequate project list satisfactory to the Bank has been provided for Bank review. The list should include only priority projects with high productivity elements. Large or prestige projects which exceed the financing capabilities of Bolivia should be excluded from this list. Mr. McNamara said that the Bank will give due consideration to Bolivia's request for technical assistance and financing of the gas pipeline to Brazil. Mr. McNamara stated that he was impressed with the efforts of the private sector to become involved in the economic development programs in Bolivia and he therefore asked Mr. Krieger to see how IFC could increase its involvement in Bolivia. Responding to the Government's request to obtain lending from the Bank Group on softer terms, Mr. McNamara said that there was very little IDA money available and due to per capita consideration Bolivia's share of the total would be insignificant. Subsequently, the Bolivians dropped their request for IDA funds.

C. CONCLUDING REMARKS

Impact of Visit

10. Mr. McNamara's visit was of particular significance to the Government and future Bank Group operations in Bolivia. From the Government's point of view, this visit--the first undertaken by a President of the World Bank to Bolivia--was an implicit commendation of the political stability and sound economic management achieved by President Banzer's administration. In turn, the Government's message to Bolivians as could be inferred from the press was simple--their support for political and economic stability was essential to enhance Bolivia's standing in the international financial community in order to augment external aid needed to improve the standards of living of Bolivia's rural and urban poor.

11. From the Bank's point of view, Mr. McNamara's call to the Economic Team for an increase in levels of domestic savings already has produced positive results. Mr. McNamara's concern about inadequate domestic savings efforts was given wide publicity and Minister Lechin (Planning and Coordination) thereafter said, that the Government would take measures to correct this shortcoming in the near future. Minister Lechin's quick response to Mr. McNamara's urging should pave the way for a constructive dialogue between the Bank and the Government regarding this issue. In addition, Mr. McNamara's field visit to the Altiplano and his signing with President Banzer of the Loan Agreement for the Ingavi Project in the presence of the beneficiaries, has spotlighted the importance which the Bank gives to using the integrated approach as the vehicle for implementation of rural development projects in Bolivia, the Altiplano in particular. The unprecedented publicity given to the Ingavi Rural Development Project because of Mr. McNamara's visit, has stimulated great interest in the Bank's approach to working with Bolivia's rural poor in the Altiplano. A number of Bolivian development agencies and the UNDP office in La Paz have begun to analyze how to incorporate the "Ingavi Model" into their feasibility studies for subsequent preparation of integrated rural development projects. It is likely that some of these feasibility studies will be submitted for Bank consideration in 1977-78.

March 31, 1976

Press Coverage

12. Mr. McNamara's visit received extensive and very favorable press coverage. Press clippings have been collected for the record.

Attachments

Cleared with and cc: Mr. Krieger

cc: Mr. McNamara's Office (2)

Messrs. Knapp

Chenery

Clark

Baum

von Hoffmann

Knox, Director, LAC Projects

Wiese, Director, LAC II

de Vries, Chief Economist, LAC

Lehbert, Division Chief, LAC II

Haasjes, Division Chief, LAC Projects

ERuderfer:ma

March 31, 1976

Itinerary for Mr. McNamara's Visit to Bolivia

March 7 - 9, 1976

Local Time

Sunday, March 7

13:10

Arrive at La Paz airport. Transfer to Hotel La Paz.

14:30 - 17:00

Tour by car of La Paz.

20:00

Small informal "get acquainted" dinner given by the Finance Minister, Carlos Calvo. There were ten Bolivian couples.

Bolivian Party: Minister of Finance, Carlos Calvo, Minister of Planning and Coordination, Juan Lechin, Minister of Transportation, Julio Trigo, Undersecretary of Finance, Raul Boada, Undersecretary of Planning and Coordination, Alberto Valdes, Undersecretary of Planning and Coordination, Enrique Garcia, President of the Central Bank, Manuel Mercado, Executive Director of the National Institute for Financing (INDEF), President of the Private Enterprises Association, Jorge Lonsdale.

Bank Party: Mr. and Mrs. McNamara, Messrs. Krieger, Clark, Burmester and Ruderfer.

Monday, March 8

8:00 - 10:00

Meeting with Economic Team at the Presidential Palace.

Bolivian Party: Minister of Planning and Coordination, Juan Lechin, Minister of Finance, Carlos Calvo, Economic Advisor to President Banzer, Adalberto Violand, Undersecretary of Planning and Coordination, Enrique Garcia, Undersecretary of Planning and Coordination, Alberto Valdes, President of the Central Bank, Manuel Mercado, Executive Director of the National Institute for Financing (INDEF), Hector Ormachea.

Bank Party: Messrs. McNamara, Krieger, Clark, Burmester and Ruderfer.

10:05 - 10:30

Meeting with President Hugo Banzer.

Bolivian Party: Minister of Planning and Coordination, Juan Lechin and Minister of Finance, Carlos Calvo.

Bank Party: Messrs. McNamara and Krieger. Messrs. Clark, Burmester and Ruderfer were introduced to President Banzer at the end of the meeting with Mr. McNamara.

March 31, 1976

- 2 -

Local Time

Monday, March 8

10:35

Depart by car accompanied by President Banzer to the Ingavi Province.

11:30 - 13:15

Tour of the Ingavi Rural Development Project area and signing of the Loan Agreement for cited Project. Mr. Winston Pacheco from the La Paz Regional Development Cooperation (CORDEPAZ) briefed Mr. McNamara about the Project.

13:30 - 14:15

Boarded train for informal luncheon en route to the Industrial Milk Plant (PIL). The principal guests at the luncheon were as follows:

Bolivian Party: President Hugo Banzer, Minister of Finance, Carlos Calvo, Minister of Agriculture, Alberto Natusch Busch, Undersecretary of Agriculture, Boris Marinovic, Mayor of La Paz, Mario Mercado, Undersecretary of Planning and Coordination, Alberto Valdes, President of CORDEPAZ, Jaime Tapia, UNDP Resident Representative, Henry Meyer, General Manager of Bolivia Railways Company, Gustavo Mendez, Executive Director of the National Institute for Financing, Hector Ormachea, General Manager of CORDEPAZ, Galdo Sanjines, Project Manager for Ingavi, Feliz Fernandez, Director of the Center for Social and Economic Development (DESEC), Juan Demure.

Bank Party: Messrs. McNamara, Krieger, Clark, Burmester and Ruderfer.

15:30 - 16:00

Visit to the Industrial Milk Plant (PIL) accompanied by President Banzer. Briefing by Mr. Barron about PIL's activities in the Altiplano and its role in the Ingavi Rural Development Project.

16:15

Return by car to La Paz.

17:30 - 18:00

Press conference at Hotel La Paz.

18:10

Free evening.

March 31, 1976

- 3 -

Local Time

Tuesday, March 9

8:25 - 9:25

Meeting with representatives of the private sector at the Presidencia Building.

Bolivian Party: President of the Private Enterprises Association, Jorge Lonsdale, Representative of the Commerce and Agricultural Association, Fernando Romero, Representative of the Mining and Livestock Association, Carlos Iturralde, Representative of the Bolivian Consulting Firms, Javier Claros, Representative of the Construction Industry, Jorge Bartos.

Bank Party: Messrs. McNamara, Krieger, Clark, Burmester and Ruderfer.

10:00 - 10:20

Meeting with the Mayor of La Paz, Mario Mercado. Briefing about the city's urban development programs.

10:25 - 11:30

Visit by car to the site of landslides in the city of La Paz.

11:45

Return to Hotel La Paz.

13:00

Departure for Santa Cruz in two separate groups by the Presidential plane and LAB 727. Light lunch served on flight.

Presidential Plane: Flying over the Beni and the Santa Cruz regions. Flying time was about two and one-half hours.

Bolivian Party: President Banzer, Minister of Finance, Carlos Calvo.

Bank Party: Messrs. McNamara and Krieger.

LAB 727: Direct flight to Santa Cruz. Flying time was about one hour.

Bolivian Party: Minister of Transportation, Julio Trigo, President of Bolivian Airlines, Jorge Patino, Executive Director of the National Institute for Financing, Hector Ormachea, Mrs. Julia Ormachea, Physician, Dr. Hugo Palazzi, five representatives from the press.

Bank Party: Mrs. McNamara, Messrs. Clark, Burmester and Ruderfer.

March 31, 1976

- 4 -

Local Time

Tuesday, March 9

14:00

Group travelling by LAB 727 land in Santa Cruz. Mrs. McNamara proceeded with program of visits in Santa Cruz accompanied by Mrs. Ormachea and representatives from the local communities.

15:30 - 16:30

Presidential plane lands in Santa Cruz. Messrs. McNamara and Krieger proceed to visit urban area of Santa Cruz accompanied by Governor of the Department, Heberto Castedo and Undersecretary of Planning and Coordination, Alberto Valdes.

16:00 - 18:30

Messrs. Clark, Burmester and Ruderfer accompanied by Minister of Transportation, Julio Trigo, and Mr. Ormachea visited via helicopter the Okinawa colony settled in 1954 by Japanese from Okinawa. Flying over the northern part of Santa Cruz.

18:45

Free evening.

Wednesday, March 10 (morning)

5:15

Depart by LEAR jet provided by Bolivian Government to Asuncion.

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Memorandum for the Record
FROM: Adalbert Krieger
SUBJECT: BOLIVIA - Mr. McNamara's Discussion with President Banzer

DATE: March 26, 1976

DECLASSIFIED

SEP 19 2012

WBG ARCHIVES

1. This memorandum summarizes the March 9 conversation between Mr. McNamara and President Banzer during the flight from La Paz to Santa Cruz, by way of the Beni region. Also present were Mr. Calvo, Minister of Finance and Mr. Krieger.

2. After a brief introductory remark about the importance the Government attaches to developing the sparsely populated but fertile lands of Santa Cruz and the Beni, President Banzer asked Mr. McNamara's consideration on two priority items for Bolivia: lending for a technical assistance project; and access to the sea.

Technical Assistance

3. a. President Banzer commented that the Government received assistance from UNDP for the preparation of the Five-Year Development Plan which should be ready for publication by mid-1976. However, he said that, it was highly unlikely that Bolivia could obtain additional financial assistance beyond that already provided because of UNDP's recent financial difficulties. President Banzer then asked if Mr. McNamara would reconsider the Government's request made in 1975 to the Bank for a technical assistance loan. He said that the purpose of such a loan would be to assist the Government to implement its Five-Year Development Plan and to finance the preparation of feasibility studies for high priority investment projects suitable for external financing. President Banzer emphasized that this would be a one-time request and that the Government would use the bulk of such funds to finance feasibility studies for agricultural projects. He concluded by saying that the Government was anxious to obtain Bank Group assistance on concessional terms, preferably IDA funds, as Bolivia is still one of the poorest countries in Latin America with a US\$300 per capita.

b. In replying Mr. McNamara said that he was aware of the constraint imposed on UNDP's operations in all of its member countries due to the financial constraints. Mr. McNamara also said that the Government's assessment that UNDP could not finance a technical assistance project in Bolivia in the near future was probably realistic. He then stated that the Bank would be willing to reconsider lending for technical assistance in Bolivia provided the Government prepares a high priority and well conceived technical assistance project, which should be closely linked with the Development Plan. Mr. McNamara stressed that the Government must take the initiative in preparing the project and presenting it for Bank consideration.

Bolivia's Access to the Sea

4. a. President Banzer briefed Mr. McNamara about his Government's negotiations with Chile which are designed to give Bolivia access to the Pacific Ocean. He stressed that obtaining access to the sea is of highest political and economic priority for Bolivia. President Banzer also mentioned that the Bolivian Government was taking precautionary measures to minimize possible friction between Chile and Peru which could jeopardize Bolivia's opportunity to finally gain access to the sea. He explained that the negotiations are complicated due to the fact that under the terms of the Treaty of ANCON, signed between Chile and Peru in 1929, when both countries agreed not to cede disputed territories to third parties without prior consultation and mutual agreement. He felt that Chile and Peru would have difficulties in reaching a mutual agreement on this issue, but he was confident, nonetheless, that a satisfactory arrangement would be worked out in the near future.

b. President Banzer then inquired whether Mr. McNamara would be willing to intercede with the Governments of Chile and Peru in his personal capacity on behalf of Bolivia. He said that Mr. McNamara's personal contacts with the respective Governments would be very valuable because he is highly regarded and respected by the Chilean and Peruvian authorities. Mr. Banzer stated that he was not requesting the Bank's involvement in this issue.

c. Mr. McNamara replied that he would be willing to intercede in a personal capacity on behalf of Bolivia provided he is approached by the concerned parties. President Banzer concluded by thanking Mr. McNamara for his interest and willingness to assist Bolivia.

cc. Mr. McNamara
Mr. Knapp
Mr. Chenery
Mr. Clark
Mr. Wiese (Director, LAC II)
Mr. Lehbert (LAC II)

AKrieger:rrle.

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: March 26, 1976

FROM: Emil Ruderfer, ^{CR} Loan Officer, LAC IISUBJECT: BOLIVIA - Mr. McNamara's Visit of March 7 - 9, 1976 - Meeting with the Private Sector

1. This memorandum recapitulates in brief the main points of interest which representatives of the Bolivian private sector raised with Mr. McNamara during a one hour meeting on March 9, 1976.
2. Mr. Lonsdale, President of the Association of Private Enterprises, made a brief welcoming statement and then asked Mr. Romero, representative of the commercial and agricultural sectors, to explain the contribution made by the private sector in Bolivia's economy. Mr. Romero said that the private enterprises contribute about 60% to Bolivia's GNP, provide about 95% of Government's income and help to employ about 90% of the country's labor force. However, he said, the importance of the private sector has been steadily declining by comparison with the public sector. Today, for example, the private sector accounts only for about one US dollar out of every nine US dollars of foreign debt contracted by Bolivia. This ratio is not likely to improve in the future, he said, because the share of the private sector in future external borrowing is likely to be only about 10% of the total. Mr. Romero concluded by saying that the private sector was anxious to assume greater responsibility in Bolivia's economic development programs and to work closely with the Government. He then asked Mr. Iturralde, representative of the mining and livestock sectors, to continue with the presentation.
3. Mr. Iturralde stated that the private sector was anxious to invest in mining, industry, agriculture, construction and handicrafts but it lacked the capital for this purpose. He praised the Bank/IDA for taking the lead in financing mining and industry through the Bolivian Industrial Bank (BISA) and for its imaginative credit scheme for agriculture under which a consortium of private banks is working with the Government's agricultural bank in financing livestock and crops. But he added, that IFC, unlike the Bank, has kept a low profile in Bolivia. He mentioned that to date it had only two active operations in Bolivia, a third one with BISA being under consideration. Mr. Iturralde felt that IFC could help the private sector particularly in the formation of mixed enterprises and, through its participation, could attract more foreign investment to Bolivia. He concluded by asking Mr. McNamara to help Bolivia attract more foreign investment for its development programs. Mr. Ruderfer explained that IFC's efforts in identifying and preparing projects for investment in Bolivia have increased considerably in the last two years. He said that IFC's operation officers are visiting Bolivia frequently and have established very close working relations with representatives from the private sector. Mr. Ruderfer concluded by saying that the process of initiating and preparing projects suitable for IFC's financing is rather lengthy in the case of Bolivia.

Memorandum for the Record

- 2 -

March 26, 1976

4. Mr. McNamara stated that he was impressed with the desires of the private sector to play a greater role in Bolivia's economic development programs. He asked Mr. Krieger to discuss the concerns of the representatives of the private sector regarding IFC and to develop together with IFC management a program for more effective participation by IFC in Bolivia in the future.

Cleared with and cc: Mr. Krieger

cc: for Mr. McNamara's Office (2)

Messrs. Knapp
Chenery
Clark
Baum
von Hoffmann
Knox, Director, LAC Projects
Wiese, Director, LAC II
de Vries, Chief Economist, LAC
Lehbert, Division Chief, LAC II
Haasjes, Division Chief, LAC Projects

ERuderfer:ma

8.

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: November 22, 1976

FROM: Ben E. Leibert, ^{IN 5) 29} Division Chief, LAC II

SUBJECT: BOLIVIA -- General Lechin's Visit to Mr. McNamara on September 21, 1976

General Lechin visited Mr. McNamara on September 21, 1976, for about 5 minutes to present the Government's request to the Bank for establishing a Consultative Group for Bolivia. Mr. McNamara stated that the Bank would support the request and, if the respective Governments concerned agreed, would be prepared to convene a first meeting in May 1977.

Cleared with and cc: Mr. Wiese, Director, LAC II

cc: Mr. McNamara's office (2 copies)

cc: Messrs. Krieger

van der Meer, Director, LAC Projects
Holsen, Chief Economist, LAC
Glaessner, Asst. Director, LAC Projects
Goffin, Asst. Director, LAC Projects
Wyss, Asst. Director, LAC Projects
Quijano, Spec. Rep. for Inter-American Org.
Ramasubbu, Div. Chief, LAC Projects
Haasjes, Div. Chief, LAC Projects
Doyen, Div. Chief, LAC Projects
Newman, Div. Chief, LAC Projects
Wessels, Div. Chief, LAC Projects
Zavala, Div. Chief, LAC Projects
Renger, Div. Chief, LAC Projects

Ms. Dowsett, Acting Div. Chief, LAC Projects

Messrs. Greene, Senior Economist, LAC II

Perez, Program Coordinator, LAC
Division circulation

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: September 20, 1976

FROM: Gunter K. Wiese, Acting Regional Vice President, LAC

SUBJECT: BOLIVIA - Meeting with General Juan Lechin Suarez, Minister of Planning and Coordination - Tuesday, September 21, at 3:45 p.m.

1. The main purpose of Minister Lechin's visit is to request Bank assistance for the formation of a consultative group for Bolivia. Minister Lechin is also likely to inquire when the first meeting of the group for Bolivia could take place in Paris.
2. You may wish to reply that the Bank would give favorable consideration to this request. You may wish to add that we are presently studying the recently completed Five-Year Development Plan and reviewing the Project List - received today - in order to ascertain that they would elicit a positive response from member governments of consultative groups for Bolivia. You may also wish to mention that informal contacts with various countries indicate that member governments would be interested in establishing a consultative group for Bolivia. As to timing, our best estimate indicates that the earliest the group could meet would be in the Spring of 1977.
3. Minister Lechin will be accompanied by the Undersecretary of Planning and Coordination, Mr. Enrique Garcia, whom you met in Bolivia in March 1976. Attached are the curricula of Minister Lechin and Undersecretary Garcia.

Attachment

CURRICULA OF MINISTER LECHIN AND UNDERSECRETARY GARCIA

Gen. Juan Lechin Suarez, Minister of Planning and Coordination, was born in Cochabamba in 1921. Married, he has three daughters in their twenties and a son of 19 years. General Lechin pursued a military career, becoming the head of the National Military College and, in 1961, a Division Commander.

Between 1965 and 1968, General Lechin was President of COMIBOL, the government's mining corporation. Subsequently, from 1970 to 1974, he held the post of Ambassador to the United Kingdom and the Netherlands. At the same time, he headed the Bolivian Delegations to International Tin, Coffee and Sugar Councils. He was appointed Minister of Planning and Coordination in 1974 and has been responsible for selecting to ranking positions in his Ministry the best possible candidates, like the present Finance Minister Calvo, the former General Manager of Banco Agricola, Alberto Valdes, and the former Operations Manager of Banco Industrial and IDB staff member, Enrique Garcia. General Lechin speaks English.

Enrique Garcia, Undersecretary for Planning in the Ministry of Planning and Coordination, has many friends at the Bank since the days when he was Loan Officer for Argentina at the IDB in Washington. A well educated and energetic man in his middle thirties, Mr. Garcia returned to Bolivia in 1974 to assume at the Banco Industrial the new post of Operations Manager, created in connection with IDA's Credit for a program of lending to medium-size mining enterprises. In early November 1975, he was appointed to his present post. He speaks English fluently.

OFFICE MEMORANDUM

TO: Mr. Robert McNamara
(through Mr. Burmester)

FROM: Gunter K. Wiese, Director, LAC II

SUBJECT: BOLIVIA - Visit of General Juan Lechin Suarez, Minister of Planning and Coordination

DATE: September 15, 1976

9/16

Minister Lechin is scheduled to attend the CEPCIES meeting for Bolivia in Washington during the week of September 20-24, 1976. The meeting which is sponsored by the Organization of American States is also attended by representatives of the Bank. In connection with his upcoming visit to Washington Minister Lechin inquired whether you could receive him for a brief visit. We have been informed that he would like to discuss with you possible Bank assistance for the formation of a consultative group for Bolivia. You may recall that Minister Lechin approached you regarding this subject during your visit to Bolivia early in March 1976. At that time, you indicated to Minister Lechin that the Bank favored organizing a consultative group for Bolivia provided the Government prepares the following: (i) a well conceived development program and (ii) an adequate project list.

We are presently reviewing the development plan prepared by the Government and expect to receive the project list for our review shortly. In view of these developments and given the fact that Minister Lechin is the most influential cabinet member after President Banzer, we recommend that you receive him for a brief visit, ~~either Wednesday morning September 22 or Thursday afternoon September 23.~~ *on Tuesday, September 21.*

Minister Lechin speaks English. May I have your views.

cc: Messrs. Krieger, o/r
Lehbert, Division Chief, LAC II

9/16 Informed region
LB

9/16
OK for 3:45 PM
Tues 9/21
(assuming
the Board
is not in
session)
Llew

Noviembre 23, 1977

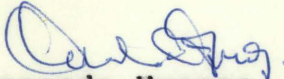
Sr. Robert Mc Namara
Presidente
Banco Mundial
Washington D.C.
U.S.A.

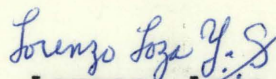
Distinguido Sr. Mc Namara:


Cumplenos hacerle llegar nuestro sincero agradecimiento por ayudar a nuestra Patria y a nosotros los campesinos a lograr desarrollar una industria que no solo es querida para nosotros sino que representa nuestra cultura. Las lanas de vicuña, alpaca, oveja y llama significan nuestro crecimiento económico y desarrollo social. Las utilizamos ahora para mejorar nuestros medios de vida.

El que el Banco Mundial y nuestro Gobierno se preocupen de proveernos con materias primas abundantes y de mejor calidad determinará un mayor crecimiento en los diferentes niveles como ser la gente que será dueña de pastizales, la gente que criará los animales, la que venderá la lana, la que la hilará a mano, la que la tejerá, la que convertirá en prendas de vestir tejidas, la que la llevará a las ciudades y finalmente los que nos colaboraran a colocar nuestros productos en los mercados mundiales. Todos nos beneficiaremos a diferentes niveles y eso creará mas riqueza para todos y para nuestro país.

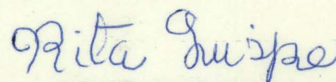
En nombre de nuestras comunidades y representación de muchas familias le decimos GRACIAS.


Fernando Huanca


Lorenzo Loza


Fidelity Calle


Hilarion de la Cruz

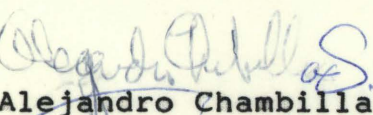

Rita Quispe

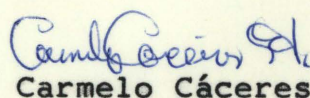

Marcela Marca



Andrés Yujra


Felix Loza


Luis Mamani


Alejandro Chambilla


Carmelo Cáceres


Leandro Laruta

Soledad Villanueva G

Soledad Villanueva

Victoria Cordova R
11

Victoria Cordova

Teodoro Condori

Teodoro Condori

H Cordova R.

Hortencia Cordova

Sixto Apaza

Sixto Apaza



Mariano Mamani

Antonio Mendoza

Antonio Mendoza

Mario Martines

Mario Martines

Mario Lazarte

Mario Lazarte

Leandro Condori

Leandro Condori

Felix Pozo

Felix Pozo

Froilan Ticona

Froilan Ticona



Tomasa Hualpa

Rita Queso Calle

Rita Queso

Juan Loza

Juan Loza



Florencio Quispe

Nicacio Cholque

Nicacio Cholque

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: November 28, 1977

FROM: Eugenio Lari, Acting Regional Vice President

SUBJECT: BOLIVIA -- Proposed Ulla Ulla Integrated Development Project

1. Messrs. Alberto Valdés, Undersecretary of Planning, and Boris Marinovic, Undersecretary of Agriculture, will call on you today at 6:00 p.m. to express the gratitude of the "campesinos" and artisans that will benefit from the proposed project, in the form of a letter to you and a small present to Mrs. McNamara. Messrs. Valdés and Marinovic are in Washington to negotiate the project. Mr. Valdés is our main counterpart for operational matters in Bolivia. He has contributed in large measure to the excellent relationship between the Bank and the Bolivian Government and has taken an active personal role in the preparation of the Ulla Ulla Project. Mr. Marinovic will be the Chief Coordinator of the proposed project.
2. The Ulla Ulla Project has received wide publicity in Bolivia. President Banzer in an unprecedented move, received the appraisal mission personally. At the meeting, he emphasized his firm commitment to improve the living conditions of the "campesinos" on the Altiplano and expressed his appreciation for the work of the staff. The project represents the first serious attempt of the Government to increase production of farmers whose land is unsuitable for crops or cattle but supports the development of native livestock resources, alpacas, llamas and vicuñas. It would help set up an integrated system for the production, processing and marketing of alpaca/llama/vicuña wool with the objective of raising the productivity and income levels of poor farmers and artisans. It would also complement the directly production-oriented activities with production support and social infrastructure investment to improve the quality of life of the alpaca/llama farmers in the Ulla Ulla region. The proposed project would finance: (a) alpaca/llama/vicuña development in Ulla Ulla comprising credit to farmers, an alpaca/llama research program, a commercial demonstration farm, a vicuña conservation and development program and production support and social infrastructure; (b) improvements in the collection, storage and processing of alpaca/llama wool, including construction of a processing plant and research on llama wool dehairing; (c) credit for wool handicrafts development; and (d) administration costs.
3. To date, the project area has received little assistance from the Government and the target population is considered among the poorest in Bolivia. Under the project, the average annual income of about 2,000 campesinos' families would increase from less than US\$100 p.a. to close to US\$1,000. At full development, about 3,400 artisans' families are expected to earn, on average, about US\$1,800 p.a. roughly twice their present income.

cc: Mr. Lerdau, Director, LC2 (o/r)
Mr. van der Meer, Director, LCP

PRScherer/AFavilla:ak

artesanías titicaca ltda.

promoción producción y comercialización de artesanía boliviana

T-630/77
November 23, 1977



Mr. Robert Mc Namara
President
The World Bank
Washington D.C.
U.S.A.

Dear Sir:

With great pleasure, the Bolivian public was informed that the World Bank is about to sign a very important loan agreement with the Bolivian Government, to develop the rural areas of our Altiplano, and to strengthen and perfect the production, marketing, and export avenues of artisan products existing in Bolivia, particularly the handicrafts made of alpaca and llama wool.

Our organization, as well as other 40 other handicraft marketing organizations, for the past 20 years have devoted their talent and modest means especially to direct the artisans to produce more in line with the demand of the consumers and present fashion trends, and to open up the main foreign markets. It is important to notice that the first finished products ever exported by Bolivia, aside from the traditional exportation of unrefined minerals, has been the exportation of handicraft products. Your cooperation, we are sure, will pave the way for more artisans to establish small industries and become proud entrepreneurs.

We take this opportunity to express to you the admiration for your vision and decision to support projects which will help the developing countries and particularly the "absolute poor" of the world.

Sincerely yours,

Daisy U. de Wende
General Manager

c.c. Mr. Peter Scherer, The World Bank
Mr. Narendre Sharma, The World Bank

DUW/rvt

artesanías titicaca Ltda.

promoción producción y comercialización de artesanía boliviana



-2-

Note: Attached and as a gift, please find a hand knitted pullover made of hand spun and hand twisted pure al paca wool, representing the ability of our artesans and a product which not only brings back valuable return of dollars to Bolivia but one which represents our culture and carries a message of friendship and understanding.

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: February 14, 1980

FROM: Peter R. Scherer, ^{AM}Division Chief, LC2SUBJECT: Minutes of Discussion with Mr. Jorge Agreda,
Minister of Planning for Bolivia

2/14

1. The Minister thanked Mr. McNamara for the efforts the World Bank was making to help Bolivia in a very difficult situation. The present interim Government had taken comprehensive stabilization measures that previous Governments had postponed. The package of measures did not only address the immediate problems the country was facing but also attempted to lay the foundation for adequate growth in the long term. The Minister mentioned that the social and political costs of the measures were high and could only be justified if longer-term considerations were taken into account. The Minister singled out two fundamental problems his country was facing: (i) large deficit in the balance of payments which required a rapid increase in exports and (ii) imbalance in the distribution of income which ought to be redressed. The Bank could make a major contribution to the resolution of these problems. The Minister mentioned that he would have operational discussions the next day with Bank staff but that he would like to emphasize on this occasion the need for quick disbursement of a program loan; disbursements should not be extended over time since the present Government would leave office on August 6, 1980. The Minister referred to the mandate it had been given by Congress to (i) take the measures necessary to overcome the present economic crisis; (ii) create favorable economic and political conditions for the new democratic Government; and (iii) take appropriate measures to consolidate the democratic process in Bolivia. The Minister stated that the process to democracy and the economic program was supported by a consensus of the Bolivian population. He expressed the appreciation of his Government for the understanding and assistance of the Bank.

2. Mr. McNamara expressed his admiration for the courageous action taken by the Bolivian Government and his support for the social and economic objectives the Government wanted to achieve. The fact that the economic measures had long been overdue in itself was an obvious indication of the difficulty to adopt them. Mr. McNamara offered the assistance of the Bank to help work out a program that would include projects to increase exports and hence improve Bolivia's balance of payments in the longer run.

Cleared with and cc: Mr. Lerda
Mr. Koch-Weser

cc: Messrs. Stern
Ardito Barletta
van der Meer, LCP
Pfeffermann, LAC
Jaspersen, LC2

PRScherer:ak

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 6, 1980

FROM: Nicolas Ardito Barletta *NB*SUBJECT: BOLIVIA - Visit by Minister of Planning and Coordination

1. You are scheduled to meet with Mr. Jorge Agreda, Minister of Planning and Coordination of Bolivia, on Thursday, February 7, at 6:00 p.m. The following is a brief summary of the political and economic situation and the issues that may be raised by the Minister during the meeting.

Political Situation

2. The last 18 months have seen a rapid transition of Governments, subsequent to President Banzer's decision to transfer power to a civilian Government. In the elections that were held in August 1979, neither of the two major political groups was able to muster the necessary absolute majority of popular and congressional votes to elect a President. To avoid political turmoil, the parties elected Mr. Guevara Arce, then President of the Senate, as President of the Republic for a transitional one-year period. However, in November 1979, his Government was overthrown by a military coup, headed by Colonel Natusch-Busch. The military Government lasted only two weeks and resigned in the face of serious political disturbances led by the labor organization (Central Obrera Boliviana). On November 15, a new civilian Government, headed by the Presiding Officer of the Lower Chamber, Mrs. Lidia Gueiler, took over with the approval of Congress. General elections were set for May and now are planned for June 29, 1980.

Current Economic Situation

3. Bolivia is going through a serious economic crisis. The current account of the external sector registered a deficit of about 10.5% of GDP in 1979, compared to a surplus of about 6% in 1974. This deterioration reflects a decline in export volumes (primarily the result of inappropriate pricing, export taxation and exchange rate policies), a rapid increase in imports, and sharply higher interest payments resulting from the growth of external debt. The rapid expansion in public investment during 1975-78, particularly in capital-intensive minerals processing plants, and the decline in the operating surpluses of the major public enterprises led to a severe disequilibrium in the public finances. The overall balance of the public sector moved from a small surplus to a deficit of about 10.5% of GDP in 1979. Real GDP growth, which had averaged over 5.5% for the period 1970-77, amounted to only 3.3% and 2.1%, respectively, during 1978 and 1979. This slow-down coincided with an intensification of pressures on domestic prices, with the rate of inflation accelerating from an average of about 10% during 1975-77 to about 17% in 1978 and 19% in 1979.

4. While successive Governments in Bolivia have felt the need for taking serious economic measures to halt the deteriorating economic situation, it was only the present administration that finally took the necessary measures on November 30, 1979. These measures, which included exchange rate adjustment, increases in the domestic prices of petroleum products and changes in monetary policy, formed the basis for an agreement with the IMF for a Stand-by arrangement. Under this arrangement, approved by IMF Board on February 1, 1980, Bolivia is eligible to draw US\$115 million during 1980. The key immediate objectives of the program are the reduction of fiscal and balance of payments deficits. The Government is also planning to undertake a major debt refinancing exercise with foreign commercial banks.

Issues That May Be Raised During The Meeting

5. The Minister is likely to concentrate on the issues relating to the proposed program loan of US\$50 million, which might go to the Board as early as April/May, 1980 if adequate progress is made with the formulation and negotiation of a program along the lines approved by Mr. Stern in response to the Region's proposal of January 16, 1980. (Issues Paper and Minutes of Loan Committee attached). He is expected to ask for early approval of the proposed loan, and may request rapid disbursement, possibly in one tranche. The Minister will probably also ask that the Bank increase its lending program to include export-oriented projects.

6. You may wish to:

- (i) congratulate the Minister on the bold economic measures taken and the skillful management that has kept the program intact inspite of domestic opposition;
- (ii) advise him that the loan request is being processed more rapidly than is normally the case, but that the operation will only be possible if there is a genuine understanding between the Government and the Bank about the strategy to be pursued and the specific measures to be taken, in particular an understanding on the Government's public investment program will have to be reached prior to the commencement of negotiations; good progress on this seems to have been achieved, but the Government's views on possible elimination or indefinite postponement of some projects (such as the Zinc Refinery, Karachi Pampa Lead Silver, Viru Viru Airport, Cemento Sevaruyo, etc., which appear incompatible with Bolivia's present priority needs) are still required.

- (iii) stress the Bank's concern with longer term issues about the country's capacity to increase exports and to improve resource allocation. In particular, the Minister's views may be sought on issues of concern to the Bank, namely (a) the formalization and strengthening of the mechanism of control over the expenditures and borrowing of public enterprises; (b) rationalization of mineral taxation; (c) gradual elimination of agricultural price and marketing controls; (d) commitment in a letter of intent that, subject to availability of sufficient reserves and agreement on prices, Bolivia would export natural gas to Brazil;
- (iv) explain to him the rationale of the two-tranche procedure of the proposed program loan, which is to ensure that satisfactory progress is being made on the economic recovery program and to verify that the new Government is equally committed to the execution of the program;
- (v) ask about the status of negotiations of the debt re-financing exercise with commercial banks and advise them that the exercise should have been completed prior to Board presentation of the loan;
- (iv) advise the Minister that, subject to the Government's continued progress on the stabilization program and sound investment and pricing policies, the Bank would consider lending for hydrocarbons, mining and agricultural projects with export focus.

Biography of Mr. Jorge Agreda

7. Mr. Agreda, about 40, graduated from Law School in Bolivia and did graduate work in sociology at Louvain University in Belgium. He is the second leading personality of the Christian Democratic Party, which supported Mr. Paz Estenssoro in the last elections. Mr. Agreda has a good working relationship with the President and is expected to remain in office if any Cabinet changes occur in the near future.

Attachments

MAAyub:vv

Minutes of Loan Committee to Consider

BOLIVIA - Program Loan, held on January 29, 1980

in Conference Room E-1208

A. Present

Committee:

Messrs. E. Stern (Chairman)
W. Baum (CPSVP)
L. Nurick (VPG)
M. Hattori (for VPF)
E. Lerda (for LCNVP)

Other:

Messrs. S. Husain
M. Haq
P. Wright
T. Asser
G. Pfeffermann
J. Martinez
H. Wyss
P. Scherer
N. Horsley
R. Cucullu
R. Moran
M. Ayub
Ms. A. Duersten

B. Issues

1. The meeting was called to consider issues emerging from the Issues Paper submitted to the Loan Committee by the Region.

C. Discussion

2. Timing of the Proposed Loan. Mr. Stern asked whether the loan should go to the Board as scheduled or be delayed until the new Government had taken office in August. Mr. Haq suggested that while work on the processing of the loan should continue, the decision to go to the Board should not be rushed. Mr. Baum added that the period of preparation of the program was too short, given the number of measures the Government was expected to take.

3. The Regional staff acknowledged the concern over the interim nature of the present Government and noted that the tranching arrangement proposed in the loan reflected this concern. The major political parties in Bolivia were agreed on the diagnosis of the economic problem, and, regardless of their differences on specific issues, they seemed unanimous on the need for the continuation of the economic program. Bank dialogue with Bolivian authorities on economic issues had continued despite frequent

changes of Government recently. There was no guarantee that the upcoming elections would result in a stable Government or coalition. At the same time, the proposed loan was expected to act as a catalyst for cofinancing and refinancing, and any delays in the loan could affect the availability of these sources of non-project assistance. The Region added that the special procedure (no holding of a decision meeting) was motivated by the Region's desire for early guidance by the Committee on the strategy to be pursued in its discussions with the Bolivian authorities.

4. Mr. Stern said that the Regional Staff should continue internal processing of the loan, giving more attention to the details of some of the proposed policy changes in areas such as agricultural pricing and marketing. Mr. Stern advised against undue haste but added that, should the various components of the program be ready in time, Board presentation of the loan before the elections could be considered.

5. Public Investment Program. In response to questions about the public investment program, the Region replied that substantial progress had been made on this since the initiation of discussion with the Government in September, 1979. Bank staff had provided detailed recommendations on a revised phasing of many of the larger projects and had suggested the elimination or indefinite postponement of some projects which appeared incompatible with the stated objectives of the Government's development program. The Government was currently revising the program. The Government had indicated that political and regional considerations would prevent it from cancelling or postponing some of the projects, particularly because a

number of these projects had already obtained commitments from bilateral sources. A detailed investment program would be submitted to the Bank within a few days.

6. Mr. Stern enquired about the nature of the control mechanism needed for the public enterprises. The Region replied that overall expenditures of the consolidated public sector were subject to IMF ceilings. During negotiations, assurance would be sought from the Government that the recently set up Economic Stabilization Council would be used to control the operations of the major public enterprises. Part of the counterpart funds might be applied to strengthening staff capability in the relevant ministries for more effective Government control over the major enterprises. Mr. Stern said that, while it would be unrealistic to expect Bank staff to study the feasibility of each project in the investment program, the Bank should come to an agreement with the Government on some basic criteria for, and objectives of, the size and composition of the investment program. In particular, the Government should aim, in the short run, at eliminating some of the "white elephant" projects and at devising a satisfactory control mechanism. A statement of intention of the long run objectives should also be obtained from the Government in terms of composition and real growth of public investment.

7. Export Promotion. Mr. Stern asked what the objectives were in the area of export promotion. The Region replied that the Government is expected to take action on the rationalization of mineral taxation and on the gradual phasing out of agricultural price and export controls. Mr. Haq

asked whether increases in agricultural exports would be at the expense of domestic consumption. The Region replied that realistic domestic prices would lead to increased production and, therefore, exports. Currently an agricultural sector survey was under preparation, and its findings would assist in the formulation of the Bank's position on reform. Mr. Stern said that the Bank's strategy in this area should be to aim for the elimination of export restrictions and price controls and to devise institutional support for promoting exports in the sector.

8. Prices of Hydrocarbons. In reply to a question, the Region replied that, in view of the recent large increases in the domestic prices of hydrocarbons, any further increases in the near future would be politically unacceptable and could disrupt the economic stabilization program. Mr. Stern said that one of the Government's long-term objectives should be to ensure that the domestic prices of hydrocarbons were more comparable to international prices.

9. Refinancing of Debt. Mr. Stern asked whether there was any specific link between the proposed loan and the debt refinancing exercise. The Region replied that while the proposed loan, the IMF Standby and the debt refinancing were part of the overall external financing plan, there was no explicit link. Mr. Stern said that it would be inadvisable to proceed too far in the processing of the loan without completion of the refinancing exercise.

10. Other Issues Relating to Proposed Program Loan. Mr. Stern suggested that the negative list of eligible imports be kept flexible and small. He preferred a two tranche loan to two separate program loans, and said that

the tranching arrangement of the proposed loan may need to be revised in terms of the size of each tranche.

11. Bolivia's Lending Program. Mr. Haq enquired whether it was advisable to expand the lending program for the period 1980-82, as suggested by the Region in October, 1979. The Region replied that any decision on the lending program would depend on the country's economic performance and the willingness to take the necessary measures. The Region added that some of the projects in the lending program were export-oriented and asked whether it would be fair to assume that the Region could go ahead with their loan processing. Mr. Stern replied that, given the way in which the question had been worded, the answer was affirmative. He added, however, that Bank Group financing of projects in Bolivia depended on Bolivia's creditworthiness, particularly since IDA funds were limited.

Cleared by Mr. Lerdau

OFFICE MEMORANDUM

TO: Mr. Peter R. Scherer, Chief, LC2E

FROM: Mahmood A. Ayub, LC2E *MAA*

SUBJECT: BOLIVIA - Proposed Program Loan Issues Paper

DATE: January 10, 1980

I. INTRODUCTION

1. During the course of the updating economic mission to Bolivia in October/November, 1978, it became apparent that the country was headed into a period of severe balance of payments and fiscal difficulties, and that the deteriorating resource availability situation would lead to a lower growth rate and higher rate of inflation. Subsequent economic developments confirmed these fears. In September, 1979, the Government made a request for Bank program assistance, and a mission was sent to Bolivia, consisting of Messrs. Pfeffermann (Chief of Mission), Martinez and Ayub. The mission was joined by you in the last week of its work. Since then, two missions have returned to Bolivia to continue the macroeconomic evaluation of the need for program assistance and, in addition, to provide technical assistance to the Bolivian authorities on the preparation of a realistic medium-term public investment program.

II. SUMMARY OF PROPOSED LOAN

2. (i) Amount: US\$50 million
- (ii) Terms: 20 years, including 5 years of grace, at the prevailing interest rate.
- (iii) Project Description: The loan would provide both balance of payments and budgetary support. The funds would be used for the imports of essential items, while counterpart funds would be applied to the public investment program acceptable to the Bank and approved by the Government. A small component of the funds would be used for undertaking studies on certain specific aspects of the mineral tax reform and on export alternatives of natural gas.
- (iv) Estimated Disbursements: The entire loan amount would be disbursed by November 30, 1980.
- (v) Procurement: Purchases will be made by firms or the Government using normal commercial practices from Bank member countries and Switzerland.

III. BACKGROUND TO CURRENT ECONOMIC CRISIS

3. Bolivia's current economic problems stem in large measure from the consequences of unfulfilled expectations. The increase in world energy and metal prices in 1973, together with indications of new petroleum and gas deposits in the country, created an atmosphere of euphoria and great expectations. The Government, anticipating substantial increases in financial resources from sales of hydrocarbons, undertook a massive program of public

investment. A large portion of this investment was undertaken by enterprises over which the Central Government exercised little control, and was financed primarily by loans from foreign commercial bank, which were lured by Bolivia's improved economic prospects. Unfortunately, the outcome, in terms of output of hydrocarbons, was substantially more sobering than the Government had envisaged. The country was thus saddled with large repayments on short-term external debts without the capacity to service them. However, Bolivia's current economic crisis is more than one of debt rescheduling of short-term loans. In particular, past unrealistic policies of pricing, exchange rate and mineral taxation, together with an inappropriate pattern of public sector investment, have caused severe dislocations in the economy which necessitate a thorough-going stabilization program, coupled with a realistic and consistent medium- and long-term development strategy.

4. Over the past several years, the principal source of disequilibrium in the economy has been the poor performance of the public sector. The financial deterioration of the sector can be traced to (i) the rapid expansion in public investment, particularly in capital-intensive processing plants, such as oil refining and mineral smelting, aimed at augmenting the domestic value-added content of Bolivia's exports; and (ii) the sharp decline in the operating surpluses of the public enterprises, particularly of the Bolivian Mining Corporation (COMIBOL) and the Bolivian Petroleum Corporation (YPFB), the two largest export-oriented enterprises. As a result of sluggish world demand, prices for most of Bolivia's mineral exports deteriorated in 1975 and recovered only slowly through 1978. In the case of YPFB, artificially low administered prices for domestic fuel products have aggravated the fiscal situation.

5. The impact of these factors on public finances can be seen from Table 1. Capital expenditures of the consolidated public sector more than doubled between 1974 and 1977, to a level of about 15% of GDP, at a time when public sector savings declined from about 8% of GDP to less than 4% of GDP. During 1978 and 1979, there was some leveling off of capital expenditures but since current savings deteriorated further in those two years the overall financing deficit remained at the high level of over 10% of GDP. During the period 1974-78, most of this financing gap was filled by foreign loans, especially from commercial banks, whereas during 1979, borrowing from domestic banking sources was far more important.

6. The surge in public expenditures was accompanied by a rapid increase in private consumption, and, given the openness of the Bolivian economy, this rise in expenditures partly spilled over into the balance of payments, with the share of imports (including nonfactor services) rising from about 20% of GDP for 1970-1974 to about 25% of GDP during 1975-1979. By contrast exports (including nonfactor services) have remained unchanged in real terms between 1974 and 1979. Several factors accounted for the poor performance of exports, apart from the generally unfavorable international prices for most of Bolivia's exports for the period 1975-78. These factors included the following:

Table 1: BOLIVIA- SUMMARY OPERATIONS OF THE CONSOLIDATED PUBLIC SECTOR, 1974-1979

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>Estimated 1979</u>
	(Million Bolivian Pesos)					
<u>Current Account Surplus/Deficit (-)</u>	<u>3,385.5</u>	<u>1,776.7</u>	<u>1,954.5</u>	<u>2,567.4</u>	<u>1,393.9</u>	<u>-557.0</u>
Capital Revenue	36.6	41.9	57.8	162.8	448.7	188.0
Capital Expenditure	3,032.8	5,268.8	7,850.2	9,980.2	9,683.7	9,835.0
Net Lending	83.0	395.5	294.2	297.9	577.0	-136.0
<u>Overall Surplus/Deficit (-)</u>	<u>306.3</u>	<u>-3,845.7</u>	<u>-6,132.1</u>	<u>-7,548.5</u>	<u>-8,418.1</u>	<u>-10,340.0</u>
<u>Financing</u>	<u>-306.3</u>	<u>3,845.7</u>	<u>6,132.1</u>	<u>7,548.5</u>	<u>8,418.1</u>	<u>10,340.0</u>
External Borrowing (net)	1,095.0	2,078.9	4,304.0	6,645.5	4,375.4	3,083.0
Domestic Borrowing (net)	-1,749.5	1,132.2	1,350.0	-17.0	3,394.6	7,210.0
Short-term Foreign Loans	348.2	634.6	478.1	920.0	648.1	47.0
	(as % of GDP)					
Current Account Surplus/Deficit (-)	7.6	3.5	3.3	3.7	1.7	-0.6
Capital Expenditure	6.8	10.5	13.3	14.6	11.8	9.8
Overall Surplus/Deficit	0.7	-7.7	-10.4	-11.0	-10.3	-10.3
External Borrowing (net)	2.5	4.1	7.3	9.7	5.3	3.1
Domestic Borrowing (net)	-3.9	2.3	2.3	-	4.1	7.2
Short-term Foreign Loans	0.8	1.3	0.8	1.3	0.8	-

Source: Ministry of Finance; Ministry of Planning and Coordination

- (i) the drop in oil production over the last five years can be attributed to the rapid depletion of old wells with no new discoveries on a large scale. At the same time, the heavily subsidized prices for domestic fuel products have encouraged a rapid increase in domestic consumption;
- (ii) growth of agricultural exports continued to be constrained by marketing difficulties, high production costs and controlled prices; and
- (iii) mining exports have been affected by the continuation of a tax structure in mining which discourages new investment (see para. 12), by the steady decline of the metal content of the tin ore, by extensive labor problems during 1977 and 1978, and by the virtual suspension of bismuth sales to France (previously the largest importer).

7. The deteriorating external resource balance, combined with increased interest payments on public debt, caused the current account balance to move from a surplus of US\$127 million (5.7% of GDP) in 1974 to a deficit of US\$537 million (10.7% of GDP) in 1979 (see Table 2). Most of this increased deficit was financed by public sector external borrowing. Notwithstanding these inflows, net international reserves declined by about US\$104 million during 1978 and by US\$230 million during 1979. Gross reserves at the end of 1979 stood at the precarious level of US\$80 million, equivalent to about three weeks of import coverage. Concomitantly, the debt service ratio has increased from about 11% in 1974 to over 30% in 1979.

8. Real GDP growth, which had averaged over 5.5% for the period 1970-1977, amounted to only 3.3% and 2.1%, respectively, during 1978 and 1979. This growth performance coincided with the intensification of pressures on domestic prices. As measured by the GDP deflator, the rate of domestic inflation accelerated from an average of about 10% during 1975-1977 to about 17% in 1978 and 19% in 1979.

IV. GOVERNMENT'S RESPONSE TO THE CRISIS

9. Over the past two years, successive governments in Bolivia have felt the need for taking serious economic measures to halt the deteriorating economic situation. Action was delayed primarily because of frequent political changes that have occurred over the period. Finally, on November 30, 1979 the Government took a series of economic measures which form the basis for an agreement with the IMF for a Standby arrangement. Under this arrangement, for which IMF Board approval is expected in late January, 1980, Bolivia is eligible to draw US\$120 million during 1980. The key objectives of the program are the reduction of fiscal and balance of payments deficits. In particular, the following measures were adopted:

Table 2: BOLIVIA - BALANCE OF PAYMENTS SUMMARY, 1974-1979

	(US\$ Million)					Estimated
	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Exports (incl. NFS)	622.9	522.4	623.4	721.3	721.5	874.1
Imports (incl. NFS)	479.2	667.3	711.2	827.9	1018.3	1292.0
<u>Resource Balance</u>	<u>143.7</u>	<u>-144.9</u>	<u>-87.8</u>	<u>-106.6</u>	<u>-296.8</u>	<u>417.9</u>
Interest on Public Debt	-17.2	-23.7	-36.9	-57.0	-84.4	-126.0
Other Factor Service Income (net)	-13.2	-7.7	-4.3	-20.1	-31.0	35.1
Current Transfers (net)	13.7	13.1	14.0	15.0	27.0	42.0
<u>Current Account Deficit</u>	<u>127.0</u>	<u>-163.2</u>	<u>-115.0</u>	<u>-168.7</u>	<u>-385.0</u>	<u>-537.0</u>
Net Direct Foreign Investment	16.7	53.4	12.1	9.0	13.0	18.0
Public M< Loans (net)	91.1	101.1	232.1	343.3	218.8	209.7
(Gross Disbursements)	(143.5)	(152.3)	(297.1)	(437.3)	(327.2)	(352.0)
(Amortization)	(52.4)	(51.2)	(65.0)	(94.0)	(108.4) ^{c/}	(142.3)
SDR Allocation	-	-	-	-	-	6.1
IMF Drawings (net)	-	-	-	-	19.7	-
Short-term Capital ^{a/}	-123.8	-45.6	-62.0	-123.6	29.6	73.2
<u>Change in Reserves (- = increase)</u>	<u>-111.0</u>	<u>54.3</u>	<u>-67.2</u>	<u>-60.0</u>	<u>103.9</u>	<u>230.0</u>
<u>Memorandum Items</u>						
Debt Service Ratio (%)	11.2	14.3	16.3	20.9	26.7	30.7 ^s
Current Deficit (-) as % of GDP	5.7	-6.5	-3.9	-4.9	-9.4	-10.7
Import Coverage of Gross Reserves ^{b/}	5.1	3.0	3.7	4.2	2.3	0.7

^{a/} Including errors and omissions

^{b/} Coverage of imports (Incl. NFS) in months, at end of period.

^{c/} After rescheduling of US\$155 Million

Source: Central Bank of Bolivia

- (i) Exchange Rate. On November 30, the Bolivian peso was devalued by 25%, from US\$1 = \$b20 to US\$1 = \$b25. Furthermore, the Government intends to pursue a flexible exchange rate policy.
 - (ii) Increase in the prices of hydrocarbons. Prices of major petroleum products were increased by an average of about 120% which is expected to discourage domestic consumption (and hence encourage exports), and yield about US\$135 million in new revenues (about US\$50 million of which would accrue to the Central and local governments and the remainder to the Bolivian Petroleum Company, YPFB).
 - (iii) Fiscal control. It is expected that the overall fiscal deficit of the public sector would be reduced from 10.3% of GDP to about 8.5% of GDP in 1980, through increases in prices of goods and services provided by public enterprises and a stricter control of current and capital expenditures.
 - (iv) Monetary policy. This includes the elimination of dollar-denominated peso deposits and adjustments in the legal reserves requirements aimed at making actual dollar deposits less attractive to commercial banks.
10. The program will also include the usual IMF ceilings on net domestic borrowing from the banking system of the public sector, on the level of international reserves, and on the magnitude of external borrowing of less than 10 years' maturity.
11. The Government has also initiated, with Bank assistance, the preparation of a medium-term public investment and financing program in an effort to control the magnitude and composition of such investment (see paras. 17 and 18).
12. In addition, the Government plans to undertake, with Bank assistance, a reform of the existing mining taxation. The present form of taxation tends to dampen investment in exploration and mine development, since development costs and investment expenditures are not taken into consideration in computing tax liabilities. The objective of the reform would be (i) to replace the present ad valorem export tax and royalties (regalias) by a single income tax, and (ii) to allow for realistic (and periodically adjusted) deduction of presumed costs from taxable base ^{1/}. At present presumed costs are set administratively without a clear rationale by the Government, and the level is such that several private mines are considering voluntary liquidation. The proposal would be to introduce an adjustment factor which would make presumptive costs reflective of actual developments in markets for major mining inputs and in realization (i.e. smelting and transport) costs, and which would be easily understandable by tax administrators and mining enterprises alike. Government decision on this change is expected by August 1980, in time for

^{1/} The presumed cost for medium mines went up from US\$1.10 per pound, in 1965 to only US\$1.85 in 1979, a 68% increase, compared to an increase of over 170% in international prices.

Bank review for the second tranche (see paras 24 and 25). Future reform of mining taxation would be aimed at devising incentives and a rate of taxation that would be conducive to efficient development of the mining potential. One such proposal to be analyzed is the possibility of a gradual shift to a true income tax, based on actual, rather than presumed costs and revenues. In the short run, there are formidable obstacles to the latter proposal arising from administrative and compliance considerations. At present, the administrative machinery in the relevant government agencies (Ministry of Finance and Ministry of Mines) is not sufficiently developed to allow serious consideration of an ambitious once-and-for-all reform of mining taxes. The situation is aggravated by poor management and accounting infrastructure in the sector. Since implementation of the latter phase is a desirable long-term objective, a portion of the funds from the proposed loan would be used to carry out detailed studies of the nature of the new tax structure and the required changes in administration and accounting procedures. Subsequent Bank program lending could play an important role in assisting the Government to implement such changes.

13. Changes in pricing and marketing policies of certain agricultural products such as coffee, cotton, cocoa, etc., would also be necessary to encourage production and exports. So far, the Government has not shown much interest in action in this area, but in view of its importance, Bank staff will initiate a dialogue with the Government. Details will be provided in the green cover of the President's Report on the proposed loan.

14. Finally, the Government plans to undertake a major debt rescheduling exercise with foreign commercial banks. The aim of the Government is to arrange for a ten-year (including three years of grace) refinancing loan of about US\$100-120 million. This would be used partly to repay in advance some of the loans with the strictest terms, and partly to repay some of Central Bank short-term borrowing. Details on this have not yet been finalized.

15. The following chart provides a summary of Bolivia's main economic problems, the Government's response to these problems and the role of the proposed program loan.

16. Provided all these short- and medium-term measures are implemented successfully, prospects are for a gradual recovery of the fiscal and balance of payments situation. Details on economic prospects will be provided in the green cover of the President's Report on the proposed loan. The Bank and other multilateral and bilateral agencies can assist by timely initiation of well-designed productive and export-oriented projects in addition to non-program assistance.

V. ISSUES

Issue No. 1 What is the status of preparation of the public investment program?

17. As already mentioned, one of the causes of the present economic crisis was the size and composition of the public investment program in the past. There was little control over capital expenditures, and some of the projects were undertaken on non-economic grounds at the cost of mounting external debt.

BOLIVIA - KEY ASPECTS OF BOLIVIA'S ECONOMIC RECOVERY PROGRAM

Main Economic Problem	Symptoms	Government's Response	Expected Impact	Role of Program Loan
(i) Overvalued exchange rate	Uncompetitive exports and balance of payments disequilibrium. Capital intensive investment.	Exchange rate adjusted on November 30, 1979. Commitment to flexible exchange rate.	Stimulate exports, strengthen balance of payments. Stimulate labor use in industry.	These two measures are part of a stabilization program agreed to with the IMF. Agreement with IMF on this program a condition for Board presentation of proposed loan.
(ii) Unrealistic pricing of hydrocarbons	Exports of petroleum products declining. Smuggling encouraged.	Prices of hydrocarbons increased by over 100%.	Encourage domestic conservation, stimulate exports, reduce smuggling.	Mining tax reform a condition for disbursement of second tranche of proposed loan.
(iii) Unrealistic mining taxation policy	Little incentive to invest. Continuous decline in production and export	Intends to undertake a tax reform in this area.	Stimulate production and exports of minerals.	Adoption of corrective measures a condition for disbursement of second tranche of proposed loan.
(iv) Inappropriate agricultural pricing and marketing policies	Slow growth of agricultural exports. Smuggling encouraged.	Adoption of corrective measures expected.	Stimulate production and exports of agricultural products.	Preparation of a public investment program acceptable to the Bank and approved by the Government a condition of Board presentation.
(v) Inappropriate magnitude and composition of public sector investment.	Inadequate contribution to growth and exports. Large public financing gap. Heavy debt burden. Slow project execution.	Preparing a public investment program with emphasis on quick-yielding, productive, export-oriented projects.	Greater contribution to growth and exports. More realistic financing gap. Lower long-term debt burden. Faster disbursements on project loans.	More manageable debt service burden.
(vi) Heavy burden of short-term external debt.	High debt service ratio.	Plans for debt rescheduling with foreign commercial banks.		

18. With Bank assistance, the Government is in the process of preparing a medium-term public investment and financing program. Preliminary information on the projects of the Central Government, decentralized agencies, local government and major public enterprises 1/ was provided to Bank staff in early October, 1979. The planned total public investment was unrealistically high, exceeding available resources for 1980 by about 30%. The mission thereafter held extensive discussions with the Government and public enterprises in an effort (i) to prepare a realistic program that could be financed without undue reliance on external financing and that would be consistent with the IMF ceiling on net domestic borrowing of the public sector from the banking system; and (ii) to emphasize in the program those projects which are productive and geared towards increasing exports. The mission provided detailed recommendations on a revised phasing of many of the larger projects, and suggested the elimination or indefinite postponement of some projects which appear incompatible with the stated objectives of the Government's development program. The Government is currently revising the program with the objective of having a realistic public investment and financing program acceptable to the Bank and approved by the Government. Approval by Bolivian authorities of such a program is a condition for Board presentation.

Issue No. 2 What measures has the Government taken, or intends to take, to encourage exports?

19. The Government has adopted a number of measures that would benefit the export sector. Most of the measures relate to the traditional primary sectors -- agriculture, mining and hydrocarbons -- which together account for almost all of the non-services' value-added and exports. These include:

- (i) In view of the relatively high inflation rates of the past few years, and the fixed exchange rate since 1972, the competitiveness of Bolivia's exports has been steadily eroded away. As part of the program with the IMF, the Government devalued the Bolivian peso by 25% relative to the US dollar.
- (ii) The Government has substantially increased the domestic prices of hydrocarbons to more realistic levels. This measure is expected to reduce domestic consumption, thereby increasing exports. 2/
- (iii) The Government is giving increasing emphasis in the investment program to those projects in agriculture, mining, industry and hydrocarbon sectors which are export-oriented.

1/ The public enterprises included in the consolidation were: COMIBOL, YPFB, CBF, ENFE, LAB, ENAF, ENDE, ENTEL, and ENA, which together with the Central and decentralized agencies, accounted for over 90% of total public investment.

2/ It is estimated that without this measure, Bolivia would have become a net importer of petroleum by 1982, whereas with this measure export volume is expected to increase by about 25% between 1979 and 1982.

- (iv) The Government's plan to effect changes in mining taxation and to provide incentives for agricultural exports should encourage increased production and export of minerals and agricultural products.
- (v) Finally, one of the promising aspects of Bolivia's long-term export prospects beyond 1985 is the planned sale of natural gas to Brazil. This is politically a sensitive issue since some factions of both the right and left feel that sales of gas to Brazil on such a large scale (the plan is for sale of about 400 million cubic feet of gas per day for 20 years to Brazil, about half of the estimated available supplies then, from known and prospective reserves) would permanently inhibit the development of energy-based industries in Bolivia. The Government's view is that the development of domestic industry and export of gas to Brazil are not mutually exclusive, and a study is under preparation to ascertain the magnitude of gas reserves. The gas pipeline project is included in the Government's public investment program, and work is expected to commence in 1982 and to be completed by late 1984.

Issue No. 3 What level of external assistance is required for carrying out the program?

20. The achievement of rates of growth of real GDP of 3% and 4%, respectively, during 1980 and 1981, consistent with the stabilization program and necessary to avoid excessive social tensions, would imply current account deficits of US\$396 million and US\$300 million, respectively, during those two years. When amortization payments are added to these, the gross external financing requirements for 1980 and 1981 amount to about US\$566 million in 1980 and US\$513 million 1981.

21. During 1980, gross disbursements from prior commitments for externally financed projects and direct foreign investment are expected to amount to US\$360 million. IMF drawings under the Standby arrangement would provide another US\$120 million. The remaining financing, about 15% of total gross requirements, are expected to be non-project assistance in the form of the Bank's proposed program loan, commercial loans, etc. Details on these are provided in Table 3. The proposed Bank loan would thus be an integral part, in terms of size and timing, of this non-project assistance. Moreover, given the long-term nature of some of Bolivia's economic problems, and the prospects for tight balance of payments and public finances for the next two years, Bolivia will need additional program assistance during the period 1981-82.

Issue No. 4 Does the Government have the capacity to carry out the economic program?

22. The economic measures recently adopted by the Government were long overdue and are expected to have a significant effect in reducing the major distortions in the economy. However, by their very nature, they have been opposed by various groups within the society. In particular, there has been considerable opposition from the labor organization, Central Obrera Boliviana

Table 3: BOLIVIA - GROSS EXTERNAL FINANCING REQUIREMENTS, 1980-81
(US\$ Million)

	Estimated 1979	Projected	
		1980	1981
Current Account Deficit (+ = deficit)	537	396	300
Amortization Payments	142	170	213
<u>Gross External Requirements</u>	<u>679</u>	<u>566</u>	<u>513</u>
<u>Sources of Financing</u>	<u>679</u>	<u>566</u>	<u>513</u>
Direct Foreign Investment (net)	18	20	22
Project-related Disbursements	352	340	370
IMF Drawings (net)	-	120	120 ^{a/}
IBRD Program Lending	-	50	50
Other Capital ^{b/}	79	56	31
Use of Reserves (- increase)	230	-20	-80

a/ Assumes that Standby is followed by an Extended Fund Facility.

b/ Includes errors and omissions.

(COB), on the grounds that the program would lead to higher unemployment and inflation rates. Opposition has also come from users of transport services and middle-class (60,000 car-driving) families and subsistence farmers (campesinos).

23. There is no doubt that implementation of the economic program will be a difficult task, and the present Government is fully aware of this. The setting up of an Economic Stabilization Council, headed by the Minister of Finance, is aimed at ensuring proper execution of the program. With elections planned for May, 1980 ^{1/}, however, it is important for the Bank to ascertain that the future administration is equally committed to this economic program. Accordingly, it is being recommended that the proposed loan be divided into two tranches, disbursements from the second tranche being conditioned, among others (see next para.), on a careful assessment of the new administration's short- and medium term economic policies and its ability to implement these policies. The alternative of delaying Board presentation to August, 1980, would seriously affect the country's balance of payments and defeat one of the objectives of the proposed loan. In the event of a change in Government prior to elections in May, not altogether unlikely, Bank staff would have to reassess the situation. Indications are, however, that most major political parties and the military favor the continuation of the economic program.

IV. CONDITIONALITY AND TRANCHING ARRANGEMENTS

24. To be of maximum assistance to the Government, the proposed loan should be disbursed quickly, roughly within six months from the date of effectiveness. This limits the number of reviews that would be useful or technically feasible to carry out. It is, therefore, recommended that the loan be divided into two tranches: the first, US\$25 million, would be made available on effectiveness; the second, US\$25 million, would be made available after a review of performance in August, 1980. The review would deal with an analysis of progress on the economic program and on implementation of the public investment program (for which detailed information will be provided by the Government to Bank staff prior to the review), with an assessment of the new administration's views on the economic program, and with satisfactory action on the mining taxation and agricultural policy issues. Disbursements would be against goods for which orders may have been placed but payment not yet effected before the date of signing of the loan. A negative list procedure will be recommended for goods to be financed, which would essentially consist of non-essential (mainly consumer) imports. Imports eligible for Bank financing would, therefore, consist of raw materials, intermediate and capital goods for the public and private sectors. The local counterpart funds generated by the loan would be deposited in a special account in the Central Bank and be used to help finance priority development activities included in the approved public investment program. A small portion of the funds would be used for undertaking studies on certain specific aspects of the mineral tax reform and on export alternatives of natural gas.

^{1/} It not yet certain whether the elections in May would be Presidential or General elections. The new administration will take office in August 1980.

25. It is suggested that the following conditionality be attached to the various steps in the processing and disbursements of the loan.

At all stages

Satisfactory progress on the Government's short- and medium-term economic program.

Negotiations (March, 1980)

Receipt of a Letter of Intent describing the action which the Government plans to take in the area of mineral taxation and encouragement of agricultural exports. Receipt of revised draft of public investment and financing program.

Board Presentation (April, 1980)

Approval by Bolivian authorities of public investment and financing program acceptable to the Bank. Receipt of a Letter of Intent on future export of natural gas to Brazil on the assumption of sufficient reserves and agreement on price. Should references to Brazil appear politically too sensitive, the letter would refer to export of gas in general.

Disbursement of First Tranche (April/May, 1980)

It is recommended that no special conditions be attached to this, except for satisfactory progress on the Government's economic program.

Disbursement of Second Tranche (August, 1980)

Reform of mining taxation acceptable to the Bank, initiation of studies for further reform of mining taxation, Bank review of satisfactory progress on the Government's economic program and on implementation of the public investment program, as well as an assessment of the new administration's views on the economic program and should these issues be resolved prior to August, 1980, a special request would be made to senior management of the Bank for bringing forward the date of disbursement.

Mr. Nicolás Ardito Barletta

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October 18, 1979

Revised Project Lending

13. The optimistic balance of payments outlook for the medium-term, a necessary condition to have the commercial banks accept a refinancing operation, will only materialize if the Bank is willing to finance the projects which are expected to generate the necessary export earnings. Bank association with these projects is therefore both consequence of and condition for the program loans. As a corollary, I suggest we revise our lending posture to concentrate over the next years on the development of projects with a direct effect on exports. For this purpose, it may be useful to distinguish three categories of lending.

(a) IDA Lending: (i) Gas Confirmation Engineering (FY80 - US\$16 million) and (ii) Land Settlement Santa Cruz (FY81 - US\$10 million). Following my earlier recommendations and Mr. Stern's instructions, we have tried to obtain special security arrangements for the gas confirmation loan. There are substantial difficulties involved (see below para. 12(c)) which could cause long delays - six months would seem a conservative estimate - and might indeed be insuperable. As you may recall, we informed Mr. Stern of this orally in Belgrade and he authorized us to use IDA funds for the project, subject to verification, upon his return to Washington, that IDA funds were available (see my memorandum of October 5, 1979, attached). If IDA should not have the

resources, and should the evidence of an agreement for an Extended Fund Facility and a Program Loan be sufficiently advanced by the time of Board presentation, I would recommend that a Bank loan be made and the security arrangements be waived.

(b) Limited Project Lending without Security Arrangements: Following agreement on access to the Extended Fund Facility and Program Loan, Bolivia would become creditworthy for limited amounts of Bank lending. Under this category, I propose to include comparatively small loans which would allow the Bank to maintain a dialogue with institutions we have helped build up or initiate a dialogue with institutions of critical importance of exports, (i) ENDE IV (FY81 US\$15 million); (ii) Livestock IV (FY81 US\$10 million) and (iii) COMIBOL Technical Assistance (FY81 US\$15 million).

(c) Project Lending with Special Security Arrangements: Two options are being explored to obtain additional security for the larger projects under consideration. First, the aggregate debt service on a loan would be covered through a corresponding lien on the foreign exchange derived from the export of production generated under this respective loan. Second, the Lenders Trust Agreement for the Bolivia-Argentine gas pipeline (entered into by the Bank, IDA, New York State Common Retirement Fund, Citybank, YPFB, Gulf Corporation and Central Bank of Bolivia) would be amended so that the repayment of a new Bank loan would be secured by the revenue from YPFB's sale of natural gas to Argentina.^{1/} While the participants have reacted favorably to a Bank initiative, negative pledge clauses included in a number of YPFB's recent loans from commercial banks cause difficulties. The agreement can be amended, however, if YPFB were to obtain respective waivers from each of the lenders concerned or allowed them to participate in the proposed security arrangements. To find a solution will require analysis of a large amount of information and subsequent negotiations with each lender. The Legal Department is pursuing this matter. Projects under this category would include (i) Gas Recycling Vuelta Grande (FY81 US\$45 million). The project could be packaged with secondary recovery in the Caranda and Monteagudo (full scale) fields. Total project cost is estimated to reach about US\$100 million. Preliminary estimates show a pay-off period of less than two years and a rate of return of above 70%; (ii) COMIBOL Mining Package (FY82 US\$50 million). Should the technical assistance loan be successful, financing for the development of a package of promising medium size mines could be considered as a next stage; (iii) Gas Pipeline to Brazil (FY82 US\$100 million). This project represents by far the most important prospect for Bolivia to improve its balance of payments position.

14. Realization of the gas export deal with Brazil is essential for the success of the stabilization program and refinancing operation considered under the umbrella of an IMF Extended Fund Facility and a Bank Program Loan. While a highly emotional debate is being carried on in Bolivia on whether or not to export to Brazil and to which extent exports should be limited to Brazilian support for joint development of the Mutun iron ore and steel

^{1/} The difference of about US\$100 million per annum in revenues and about US\$6 million per annum of debt service obligations would leave a considerable margin.

complex, senior government officials stated to Bank staff in no unclear terms that Bolivia had no alternative but to go ahead with the exports. A politically expedient moment had, however, to be found to announce officially a definite decision. This, certainly, could not be the case before sufficient gas reserves had been found to sustain exports to Brazil while allowing a modicum for domestic consumption. The gas pipeline project would be large, with a total cost of US\$1 billion, of which about US\$600 million would correspond to the Bolivian side. Export earnings for Bolivia would probably exceed US\$200 million annually, equivalent to the deficit in Bolivia's current account of the balance of payments in 1978. Bolivia might try to get foreign firms to provide their own financing and then to recoup themselves out of the tolls for transporting the gas. I do not believe, however, that Bolivia will opt for this possibility.

15. The proposed revised project specific lending program for FY80-82, excluding US\$100 million for program loans in FY80 and FY81, of US\$267 million compares with the FY80-84 Review Group allocation of US\$325 million.^{1/} If accepted, annual lending per capita to Bolivia would reach US\$17.8 (US\$24.8 including the program loans) as against US\$13.0 under the Review Group proposal. If the proposed export projects with special security arrangements are taken separately, per capita lending would be US\$11.8.

16. The strategy proposed seems right in view of Bolivia's critical situation, but it would obviously have some negative consequences. Past efforts in our preparation work for other projects, not included in the program,^{2/} will be lost; our relationship with institutions which we have helped build up and which continue to need our support will be affected adversely. To minimize adverse effects, I would propose to include, where appropriate, project specific detail in our dialogue with the Government in the context of the proposed program loans. This would apply specifically to ENFE (Railways), ASAANA (Airports), BANVI and CONAVI (housing) and FOMO (Education).

^{1/} Specific proposals on projects and amounts for Bank Group lending in FY83/84 will be made once we have a clear picture on the progress of the Government's stabilization and reconstruction program. Program Loan estimates are rough orders of magnitude. The amounts will be defined with more precision following completion of the balance of payments analysis.

^{2/} These include Urban Development, Telecommunications, Industrial Parks, Small Scale Enterprises