

DEVELOPMENT OF MECHANISMS FOR EXPORT AND INVESTMENT PROMOTION

(TC-97-10-18-9-BO)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Ministry of Foreign Trade and Investment (MCEI)

BENEFICIARIES: Centro de Promoción Bolivia [Bolivia Promotion Center] (CEPROBOL) and the MCEI

OBJECTIVES: The program's overall objective is to contribute to the positioning of Bolivia in the global marketplace by establishing mechanisms for promoting exports and investment. The specific objectives of the program are: (i) to design, approve and execute national programs to promote investment and increase exports, through the establishment and operation of an institutional mechanism with public and private sector participation (CEPROBOL); and (ii) to provide the MCEI with the tools necessary to ensure the effective design and implementation of trade policy and to coordinate the implementation of promotion programs with the private sector.

FINANCING:

MIF (Window I):	US\$1,540,000
Local contribution:	US\$ 660,000
Total:	US\$2,200,000

TERMS:

Execution period:	24 months
Disbursement period:	30 months

EXCEPTIONS TO BANK POLICIES AND PROCEDURES: The program does not call for any exceptions to Bank policies or procedures (see paragraphs 4.11 and 4.18).

SPECIAL CONTRACTUAL CONDITIONS: No special contractual conditions have been defined (see paragraph 4.18).

I. COUNTRY AND THE PROJECT ELIGIBILITY

- 1.1 The Donors Committee declared Bolivia to be eligible for all financing modalities under the Multilateral Investment Fund (MIF) on October 6, 1993. The proposed program qualifies for funding under the Technical Cooperation Facility (Facility I), since its objectives involve strengthening the private sector's ability to respond to new investment opportunities and to the challenges arising from the need to position Bolivia effectively in the global marketplace.

II. BACKGROUND

- 2.1 The macroeconomic and structural reforms introduced to consolidate a free-market economic development model, redefining a new role for the State and giving the private sector the key role in economic growth, have helped to stabilize and expand the economy of Bolivia. 1/
- 2.2 Nevertheless, despite the fact that the adopted reforms are the foundation for promoting increased national and international private investment in the country, current investment levels are still considered insufficient to generate the growth rates that would foster adequate economic and social development. 2/ Creating a climate favorable to attract capital is, therefore, the country's principal challenge. Moreover, since Bolivia's local market is not significant, any investment promotion effort would have to focus primarily on exports.
- 2.3 To enhance the conditions for attracting investment and promoting exports, in September 1997, the Government of Bolivia, recognizing that a strategic alliance with the private sector is required, decided to create the Ministry of Foreign Trade and Investment (MCEI), to centralize, foster and coordinate national export and investment promotion activities with trade associations.

1/ In this decade, the Bolivian economy has grown at an average annual rate of 4%, and inflation levels have continued to trend downward to 6.7% in 1997.

2/ Increasing the current 4% annual growth rate to rates of 5%, 6% and 7%, would require investment levels of 20%, 24% and 28%, respectively. Given current public investment levels, the goal of the government is to achieve a private investment rate of 16% in the year 2002.

- 2.4 The private sector, for its part, has also recognized the need for a strategic alliance with the public sector. The Confederación de Empresarios Privados de Bolivia [Confederation of Private Entrepreneurs of Bolivia] (CEPB) has made a proposal to the government, in a document called "Visión Estratégica del Sector Privado" [Strategic Vision of the Private Sector], for the creation of the Business Sector Consultative Board (COSEM), to expedite Bolivia's positioning in the global marketplace.
- 2.5 In seeking an operating mechanism for the strategic alliance in terms of export and investment promotion, the MCEI evaluated the current instruments of coordination and, after consulting with representative organizations of the private sector, concluded that the Centro de Promoción Bolivia [Bolivia Promotion Center] (CEPROBOL), a public institution, needed to be transformed into an entity with private participation.

III. PROJECT OBJECTIVES

- 3.1 The objective of the program is to contribute to the positioning of Bolivia in the international marketplace through the establishment of mechanisms for export and investment promotion. The specific objectives of the program are: (i) to design, approve and execute national programs to promote investment and increase exports, through the establishment and operation of an institutional mechanism with public and private participation (CEPROBOL); and (ii) to provide the MCEI with the tools necessary to ensure the efficient design and implementation of trade policy and to coordinate the implementation of promotion programs with the private sector.

IV. PROJECT DESCRIPTION

A. Components

1. Transformation of CEPROBOL into an operating mechanism for the strategic alliance (US\$304,000)
- 4.1 Purpose: To support the transformation of CEPROBOL into an operating mechanism for the strategic alliance to design, approve and implement programs of joint public and private sector action that will promote investment and increase exports. The proposed activities are:
- a. Design of the regulatory and operational framework necessary for the Board of Directors of CEPROBOL, the agency's highest authority, to efficiently perform its functions, including the

validation of the structure and functions of the Technical Management.

- b. Support for the initial formation and startup of the Technical Management of CEPROBOL, the executive branch of the Board of Directors, to identify scenarios, prepare proposals, design, coordinate and set up export and investment promotion programs, and to monitor, coordinate and implement the decisions issued by the Board.
- 4.2 To execute the above-mentioned tasks, the program would finance the consulting services of an executive director, an assistant to the program director, a financial assistant, and short-term consulting services. The respective terms of reference are available in the program's technical files.
2. Strengthening of the MCEI's capacity to coordinate public action with the private sector (US\$1,777,000)
- 4.3 Purpose: To strengthen the MCEI's function as the official channel of communication between the government and the private sector, to foster and coordinate national export and investment promotion activities with trade associations. The proposed activities are:
- a. Design and joint implementation of strategies, programs and activities to promote exports and attract investments (US\$819,000). Will include consulting services to support: (i) the review and reformulation of current strategies and programs, taking into consideration the different scenarios for the country's entry into the global economy, external demand and capacity to respond with exportable supply; (ii) the development of two annual export and investment promotion programs to be presented and approved within the framework of CEPROBOL for subsequent implementation. The annual programs must lead to specific identified activities that will include resources to be committed by the public and private sectors for their funding; (iii) the preparation of exporter and investor guides; (iv) the funding of sector studies to promote exportable products and identify specific joint-venture

investment projects; and (v) the planning and establishment of the business service center. 3/

- b. Review and improvement of export regulations and export promotion regimes (US\$226,500). Will include the contracting of consulting services to: (i) prepare, develop and assess a new regulatory and policy framework for export regulations, RITEX and tax refunds; (ii) establish simple and streamlined procedures to expedite pre-export and post-export procedures, including coordinating the implementation of a new export declaration; regulations on the issuance of certificates of origin; and special rules for the treatment of exports of less than US\$1,000; (iii) evaluate and propose supplemental procedures and regulations for the free zone system in order to make it more efficient, including the formulation of criteria and mechanisms for evaluating concession requests; (iv) formulate and implement policies to promote, supervise and monitor all aspects of export regulations; and (v) evaluate the appropriateness of instituting environmental certification of exports.
- c. Investment regulations (US\$181,500). Will include the contracting of consulting services to: (i) analyze the general and sector legal framework for investment; (ii) identify a set of selected and ranked regulations that affect economic activity in Bolivia and are barriers to private investment; (iii) conduct a comparative analysis of laws pertaining to investment and articulate deregulation proposals selected and recommended on the basis of other successful experiences at the international level; (iv) prepare proposals to implement mechanisms for deregulation which include legal, regulatory and institutional instruments; and (v) establish simple, streamlined procedures to facilitate investment in the country.
- d. Development of a business opportunities information system (US\$550,000). Will include the contracting of consulting services and the procurement of hardware necessary for the design and implementation of an integrated system of strategic business information on potential markets for Bolivian exports, with an emphasis on nontraditional products, and on investment

3/ Services will include: (i) assisting and advising foreign entrepreneurs who request general, reliable and prompt information on purchasing, investing or setting up an economic undertaking in Bolivia; (ii) assisting and advising domestic entrepreneurs on starting or consolidating international business; (iii) directing entrepreneurs to services and programs that promote current exports, investments and tourism; (iv) setting up a collection of samples of Bolivian exportable products, and (v) assisting and following up on investors and entrepreneurs interested in investing in Bolivia.

opportunities, including legal, regulatory and institutional aspects and other incentives to attract investment. The system will be comprised of three information subsystems, 4/ and it will be possible to query the databases as well as generate reports via the Internet.

- 4.4 The terms of reference for each activity of the component are available in the program's technical files. To simplify execution of the component, the various international consulting services contracts have been grouped so as to be let through a process of an international call for proposals.

B. Organization and implementation

1. Executing agency

- 4.5 The program's executing agency will be the Ministry of Foreign Trade and Investment (MCEI), whose duties and responsibilities within the structure of the public sector relate directly to the purpose of the operation.

2. Implementing mechanism and institutional arrangements

- 4.6 The MCEI will have basic responsibility for program execution, and has appointed a program director who will be in charge of administrative and financial execution of the operation and will have signing authority in dealings with the Bank.
- 4.7 For purposes of ensuring the effective execution of the program components, the following have been planned: (i) establishing a support unit for program implementation to be located within the Technical Management of CEPROBOL; and (ii) designating a person at

4/ The subsystems, with their respective information modules, are: (i) investment and privatization: will provide information on the flows, amounts and trends of investment resources attracted by the country and privatization programs that are new or in progress; (ii) exports and foreign trade: will provide information on the performance of Bolivian exports, in terms of flows, amounts and trends, as well as assessing the impact and operation of sector incentives; and (iii) business opportunities: will permit access to strategic information on international business and private investment opportunities in Bolivia, for export promotion and attracting private investment (markets/products, tariff references, international pricing, export and investment procedures and incentives; Bolivian exportable products, business opportunities; bilateral and multilateral agreements, statistics, international expositions and events, international physical distribution, directories of institutions, exporters, investors and others).

the level of the Deputy Ministers for Exports and Investment to be responsible for the supervision and monitoring of activities within his respective jurisdiction.

- 4.8 All program activities will be performed in accordance with the terms of reference and specifications already defined and agreed with the authorities. The contracting of consulting services and procurement of goods will be done by the aforementioned support unit, following the procedures of the Bank and the MIF, under the supervision of the program director.
- 4.9 CEPROBOL, once formed and in operation, will primarily be responsible for the proper functioning of the strategic alliance. To ensure that the program is quickly put in motion, a policy and regulatory framework proposal will be developed with the Bank's contribution, which must be approved by the Board of Directors of CEPROBOL within 60 days from the start of operations.
- 4.10 The Technical Management of CEPROBOL will have two principal duties in implementing the program: (i) to support the efficient operation of the CEPROBOL component as a mechanism of coordination between the public sector (MCEI) and the private sector for developing the strategic alliance; and (ii) to support the MCEI in implementing and managing the program as a whole. To perform these duties, the support unit will be comprised of: (i) an assistant to the program director; and (ii) a financial assistant. This structure is adequate for the scope of activities to be carried out and the size of the program.

3. Procurement

- 4.11 The procedures of the Bank and the MIF will be followed for selecting and contracting consulting services and procuring equipment and materials under the program. An international call for proposals and bidding will be conducted if anticipated contracts exceed the equivalent of US\$200,000 for services and US\$350,000 for equipment and materials. In accordance with Bank policies, no overhead costs or administrative expenses of the MCEI will be funded with the program's resources, except for incremental expenses expressly established for the operation of the Technical Management.

C. Monitoring and evaluation

- 4.12 The technical cooperation agreement to be signed by the Bank and the executing agency will require the following reports to be submitted, to the Bank's satisfaction, through the Technical Management of CEPROBOL, for purposes of monitoring and evaluation of the program: (i) Initial report, 30 days after the signing of the agreement, containing the schedule and work plan for the components and activities; (ii) Monitoring reports, 30 days after the end of each six-month period of program execution, including,

among other things, a description of the tasks performed, the objectives achieved and the tasks scheduled for the next six months.

- 4.13 For purposes of program evaluation, the Bank will use resources of the financing to hire consulting services directly and the indicators set forth in the program's logical framework, attached as Annex I, will be taken into account. The evaluation will consist of: a mid-term evaluation report, within 60 days after the end of the first year of program execution, which will cover: (i) progress vis-à-vis program execution indicators; (ii) establishment and operation of CEPROBOL; and (iii) recommendations; and a final evaluation report, 90 days after the end of program execution, including: (i) the degree of fulfillment of the specific objectives of the program, incorporating specific examples of the benefits obtained with the strategic alliance at work to promote exports and investments, as well as the institutional capacity of the MCEI to coordinate its activities with the private sector; (ii) the performance level of the business opportunities information system and assessment mechanisms; (iii) the efficiency of the mechanism for the sustainable operation of CEPROBOL; and (iv) the drawbacks and merits of the program's design.

- 4.14 Financial statements. During program execution, the annual and final financial statements will be submitted to the Bank, in connection with the program's expenditures charged to the Bank's contribution and local contribution. These financial statements will be audited by a firm of independent public accountants acceptable to the Bank and the cost thereof will be covered by the financing.

D. Cost and financing

- 4.15 The cost of the program has been estimated to be the equivalent of US\$2.2 million. Up to US\$1.54 million (70%) in nonreimbursable funds would be contributed by the MIF. The Government of Bolivia would contribute the balance, equivalent to US\$660,000 (30%). The consolidated budget is set forth below, and the itemized budget is included in the program's technical files.

PROGRAM BUDGET	MIF	LOCAL	TOTAL	%
COMPONENTS/CATEGORIES	In US\$			
Strategic alliance operating mechanism	200,000	104,000	304,000	13.8
1. Consulting services	200,000	104,000	304,000	13.8
Strengthening MCEI coordination with private sector	1,221,000	556,000	1,777,000	80.7
1. Consulting services	1,005,500	397,500	1,403,000	63.7
2. Training	14,000	-	14,000	0.6
3. Equipment and material	201,500	76,500	278,000	12.6
4. General support	-	82,000	82,000	3.8
Evaluation and audit	60,000	-	60,000	2.8
Contingencies	59,000	-	59,000	2.7
Total	1,540,000	660,000	2,200,000	100
%	70	30	100	

E. Execution period and disbursement schedule

- 4.16 The period for execution of the program would be 24 months, and the period for the last disbursement, 30 months from the signing of the technical cooperation agreement with the MIF. In consideration of the nature of the operation and the volume of goods and services to be procured, it has been deemed advisable to establish a revolving fund of up to 10% of the contribution, which will make for a suitable program resource disbursement process.

F. Status of project preparation

- 4.17 The program is ready to be implemented. The public and private sectors have worked together on this idea and have agreed on the establishment of the strategic alliance. The government has demonstrated its commitment by approving the supreme decree that modifies the structure, scope and financing of CEPROBOL in order to allow the private sector to participate in decision-making. The specific MCEI areas to be strengthened have been identified and are supported by an analysis conducted by the Harvard Institute for International Development (HIID) and by the Foreign Investment Advisory Service (FIAS).
- 4.18 The program concept was suggested by the private sector and in order to ensure that its design reflects the interests of the various groups, a consultant was hired to perform a detailed study. The findings of the study were the basis for the program's design.

- 4.19 With regard to program execution, no exceptions to the Bank's regulations and policies are envisaged nor are any special contractual conditions called for.

V. JUSTIFICATION AND RISKS

A. Justification

- 5.1 There have been several initiatives to promote foreign trade in Bolivia. Specifically, activities have been developed to support the public and private sectors, including the following, which had assistance from the Bank and the MIF: (i) support for the development of productive sectors and for promoting foreign trade (ATN/SF-3719-BO) with the public sector; and (ii) foreign trade modernization (ATN/MT-4741-BO) with the private sector. The lessons drawn from these initiatives suggest that future sector programs should include the establishment of permanent action and cooperation mechanisms between public and private agents in order to generate the synergies required to facilitate the processes and activities of export and investment promotion in the country. This proposal meets that need.
- 5.2 The proposed program is part of an effort by the Bank Group in Bolivia to support small and medium-sized enterprises by encouraging competitiveness through financing for training and business restructuring activities as well as financing. Two major aspects of the program will complement this effort. First, the program will support the creation of an efficient mechanism of cooperation between the private and public sectors so that the export and investment promotion programs will have the greatest impact. Second, the program will support modernization of the government's institutional framework to make the design and implementation of export and investment policies more effective.
- 5.3 The proposed program also takes into account the following lessons learned: (i) an effort should be made to include the smallest number of executing agencies in one technical cooperation operation; (ii) in the case of institutional strengthening projects, for the objectives to be achieved, the program's design needs to be sufficiently flexible; (iii) the beneficiary's commitment to the program (ownership) needs to be confirmed; (iv) in developing promotion programs, not only should tariff advantages offered by certain external markets to national producers be considered, but also the response capacity of exportable supply and import requirements in terms of quality, pricing, design and packaging; (v) activities to promote joint ventures with foreign enterprises and capital will be included in order to increase competitiveness and expedite the country's positioning in the global marketplace; and (vi) the funding of

income-producing activities must be stimulated to achieve sustainability of the services offered.

B. Risks

- 5.4 The sustainability of private sector participation is considered to be the program's main risk. The operation is designed to minimize that risk by giving the private sector the role of defining and deciding jointly with the public sector the country's national promotion activities. In this process, the private sector will have a direct influence on public resources.
- 5.5 Another risk under the program is ensuring the financial sustainability of CEPROBOL as a mechanism for the strategic alliance with the private sector. In that respect, the operation takes this risk into account by setting up the financing mechanism that will provide that sustainability.

VI. EXPECTED RESULTS AND INDICATORS

- 6.1 Results - Component 1: To have an institution in 1998 (CEPROBOL) consisting of members of the public and private sectors and responsible for efficiently preparing, approving and executing national strategies and export and investment promotion programs. Under the program, CEPROBOL will approve and implement annual export and investment promotion programs.
- 6.2 Results - Component 2: (i) in the area of promotion and development: a strategy for positioning Bolivia in the global marketplace will be developed and two annual national programs for export and investment promotion will be formulated and implemented; exporter and investor guides will be prepared; service centers ("one-stop shop") will be designed and put into operation for entrepreneurs interested in investing in Bolivia; information systems of business opportunities and methods for evaluating promotion programs will be developed and put into operation; (ii) in the area of policy and regulatory framework: a new law on export procedures and regulations will be drafted; simple, streamlined procedures will be established to expedite current pre-export and post-export practices; mechanisms for economic deregulation to facilitate new investments will be proposed, including legal, regulatory, institutional and procedural instruments.

VII. ENVIRONMENTAL AND SOCIAL IMPACT

- 7.1 The program profile was reviewed by the CESI/TRG on April 10, 1998. Its recommendation to include an evaluation of the appropriateness of instituting environmental certification of exports in the program has been incorporated.

ANNEX I: LOGICAL FRAMEWORK
BOLIVIA: DEVELOPMENT OF MECHANISMS FOR EXPORT AND INVESTMENT PROMOTION

Objective: The program's objective is to contribute to Bolivia's positioning in the global marketplace, through the establishment of mechanisms for export and investment promotion.

Specific Objectives: The specific objectives of the program are: (i) to design, approve and implement annual national programs aimed at promoting investment and increasing exports, and to establish an operating mechanism between the public sector and private sector, called a "strategic alliance"; and (ii) to provide the MCEI with the instruments necessary to ensure the implementation of trade policy and to coordinate the implementation of promotion programs with the private sector.

Implementing Agency: Ministry of Foreign Trade and Investment (MCEI) through the Technical Management of the Centro de Promoción Bolivia (CEPROBOL).

Program	Activities	Results
of the Centro de Promoción Bolivia (CEPROBOL) operating mechanism for export and investment promotion.	<ul style="list-style-type: none"> - Design of the regulatory and operational framework of the Board of Directors of CEPROBOL. - Establishment of the Board of Directors of CEPROBOL and appointment of its members. - Support for initial design and startup of the Technical Management of CEPROBOL, the executive branch of the Board of Directors, to identify scenarios, prepare proposals, design, coordinate and set up export and investment promotion programs, as well as monitor, coordinate and implement decisions made by the Board. 	<p>An institution comprised of members of the public and private sector responsible for the effective preparation, approval and execution of strategies and programs for export and investment promotion.</p> <ul style="list-style-type: none"> - Regulatory and operational framework of the Board of Directors of CEPROBOL approved within 60 days into program execution. - CEPROBOL's Executive Director and Technical Management supervisor appointed and hired. - Two annual programs for export and investment promotion presented, approved and implemented as designed by the CEPROBOL Board of Directors. - Proposal for the financial sustainability of CEPROBOL presented and implemented 12 months into program execution.
of the MCEI's strategic alliance to coordinate public and private sector.	<ul style="list-style-type: none"> - Design and joint implementation of strategies, programs, and activities to promote exports and attract investment. - Review and improvement of export regulations and export promotion - Investment regulations - Development of business opportunities information system 	<ul style="list-style-type: none"> - Strategies for positioning Bolivia in the international marketplace and two national programs each year to promote exports and investment formulated; exporter and investor guides prepared; four joint-venture contracts signed and in process of implementation for the sectors in the annual promotion programs; identification of demand for specific products, marketing strategies, and product adaptation; center ("one-stop shop") for entrepreneurs interested in investing operation. - New law on export procedures and regulations implemented; simplified procedures to expedite current pre-export and post-export practices. - Proposal for mechanisms to deregulate economic activity in order to promote new investment, including legal, regulatory, institutional and procedural instruments. - Business opportunities information system and methods for evaluating promotion programs designed and in operation.

PROPOSED RESOLUTION

BOLIVIA. NONREIMBURSABLE TECHNICAL COOPERATION FOR AN
INVESTMENT AND EXPORT PROMOTION PROGRAM

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Republic of Bolivia and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT- with respect to a technical cooperation program for an investment and export promotion program.
2. That up to the amount of US\$1.540.000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Technical Cooperation Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.