

BOLIVIA

**SECTOR PROGRAM FOR STRENGTHENING INSTITUTIONS AND
PUBLIC POLICIES TO SUPPORT PRODUCTIVITY AND
COMPETITIVENESS**

(BO-0219)

LOAN PROPOSAL

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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

INFORMATION AVAILABLE IN THE RE1/FI1 TECHNICAL FILES

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ABBREVIATIONS

ABCMS	Acuerdos Bolivianos de Competitividad Municipales [Bolivian Municipal Competitiveness Agreements]
ABCPs	Acuerdos Bolivianos de Competitividad Prefecturales [Bolivian Prefecture Competitiveness Agreements]
ABCS	Acuerdos Bolivianos de Competitividad [Bolivian Competitiveness Agreements]
ATPA	Andean Trade Preference Act
ATPDEA	Andean Trade Promotion and Drug Eradication Act
BCB	Central Bank of Bolivia
CAF	Corporación Andina de Fomento [Andean Development Corporation]
CAS-COMPETITION	Comité de Acompañamiento del SBPC con la Cooperación Internacional [SBPC Follow-Up Committee on International Cooperation]
CBPC	Consejo Boliviano de Productividad y Competitividad [Bolivian Productivity and Competitiveness Council]
CDCs	Consejos Departamentales de Competitividad [Departmental Competitiveness Committees]
CEPROBOL	Centro de Promoción Bolivia [Bolivian Promotional Center]
CIPC	Comité Interinstitucional de Productividad y Competitividad [Inter-Agency Productivity and Competitiveness Committee]
COB	Central Obrera de Bolivia [Workers' Federation of Bolivia]
CODEPEs	Consejos de Desarrollo Productivo, Económico y Social [Production-Sector, Economic and Social Development Councils]
CSUTCB	Confederación Sindical Única de Trabajadores Campesinos de Bolivia [Campesinos Confederation of Bolivia]
DANIDA	Danish International Development Agency
DFID	Department for International Development (United Kingdom)
DGIS	Directorate General for International Cooperation (Netherlands)
EBRP	Estrategia Boliviana de Reducción de la Pobreza [Bolivian Poverty Reduction Strategy]
FSO	Fund for Special Operations
GDP	Gross domestic product
GSP	Generalized System of Preferences
HIPC	Heavily Indebted Poor Countries
IBMETRO	Instituto Boliviano de Metrología [Bolivian Metrology Institute]
IFC	International Finance Corporation
IMF	International Monetary Fund
INBOPIA	Instituto Boliviano de Pequeña Industria y Artesanía [Bolivian Small Industry and Crafts Institute]
INE	Instituto Nacional de Estadísticas [National Statistical Institute]

MDE	Ministry for Economic Development
MRREE	Ministry of Foreign Affairs and Worship
OBA	Organismo Boliviano de Acreditación [Bolivian Accreditation Agency]
OVE	Office of Evaluation and Oversight
PAC	Programa Andino de Competitividad de la CAF [CAF Andean Competitiveness Program]
PBL	Policy-based loan
PRI	Private Sector Department
PTI	Poverty-targeted investment
RITEX	Régimen de Admisión Temporal para Perfeccionamiento Activo [Temporary Clearance for Re-export Regime]
SAT	Servicios de Asistencia Técnica [Technical Assistance Service]
SBPC	Sistema Boliviano de Productividad y Competitividad [Bolivian Productivity and Competitiveness System]
SDS	Sustainable Development Department
SECO	State Secretariat for Economic Affairs (Sweden)
SENAPI	Servicio Nacional de Propiedad Intelectual [National Intellectual Property Service]
SEQ	Social equity enhancing project
SIDUNEA	Sistema Aduanero Automatizado [Automated Customs System]
SIVEX	Sistema de Ventanilla Única de Exportación [Single Export Window]
SNAP	Servicio Nacional de Administración Pública [National Public Administration Service]
SOA	Sistema de Organización Administrativa [Administrative Organizational System]
TRIPs	Trade-Related Aspects of Intellectual Property Rights
UDAPE	Unidad de Análisis de Políticas Económicas [Social and Economic Policy Analysis Unit]
UPC	Unidad de Productividad y Competitividad [Productivity and Competitiveness Unit]
USAID	United States Agency for International Development
VAT	Value added tax
WCO	World Customs Organization
WEF	World Economic Forum



BOLIVIA

IDB LOANS

APPROVED AS OF OCTOBER 31, 2003

	US\$Thousand	Percent
TOTAL APPROVED	3,290,237	
DISBURSED	2,694,823	81.90 %
UNDISBURSED BALANCE	595,413	18.09 %
CANCELATIONS	243,129	7.38 %
PRINCIPAL COLLECTED	1,135,407	34.50 %
APPROVED BY FUND		
ORDINARY CAPITAL	1,190,831	36.19 %
FUND FOR SPECIAL OPERATIONS	2,027,144	61.61 %
OTHER FUNDS	72,261	2.19 %
OUTSTANDING DEBT BALANCE	1,559,417	
ORDINARY CAPITAL	449,001	28.79 %
FUND FOR SPECIAL OPERATIONS	1,104,075	70.80 %
OTHER FUNDS	6,341	0.40 %
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	300,289	9.12 %
INDUSTRY, TOURISM, SCIENCE AND TECHNOLOGY	227,843	6.92 %
ENERGY	571,132	17.35 %
TRANSPORTATION AND COMMUNICATIONS	766,193	23.28 %
EDUCATION	134,583	4.09 %
HEALTH AND SANITATION	386,694	11.75 %
ENVIRONMENT	43,456	1.32 %
URBAN DEVELOPMENT	74,234	2.25 %
SOCIAL INVESTMENT AND MICROENTERPRISE	247,999	7.53 %
REFORM AND PUBLIC SECTOR MODERNIZATION	395,696	12.02 %
EXPORT FINANCING	24,478	0.74 %
PREINVESTMENT AND OTHER	117,638	3.57 %

* Net of cancellations with monetary adjustments and export financing loan collections.



BOLIVIA

STATUS OF LOANS IN EXECUTION AS OF OCTOBER 31, 2003

(Amount in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROYECTS	AMOUNT APPROVED*	AMOUNT DISBURSED	% DISBURSED
<u>REGULAR PROGRAM</u>				
Before 1997	6	287,829	230,224	79.99 %
1997 - 1998	4	122,000	54,448	44.63 %
1999 - 2000	8	189,300	58,558	30.93 %
2001 - 2002	9	189,200	12,514	6.61 %
2003	3	101,000	30,126	29.83 %
<u>PRIVATE SECTOR</u>				
2001 - 2002	2	112,000	24,000	21.43 %
TOTAL	32	\$1,001,329	\$409,870	40.93 %

* Net of cancellations. Excludes export financing loans.



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Bolivia

Tentative Lending Program

2003

Project Number	Project Name	IDB US\$ Millions	Status
BO0178	Education Reform II	36.0	APPROVED
BO0213	Fiscal Sustainability Program	63.0	APPROVED
BO0225	TC Fiscal Sustainability Support Program	2.0	APPROVED
BO0179	Support Productive Activities in Rural Areas	13.5	
BO0221	Land Regularization and Legal Cadastre	22.0	
BO0219	Sector Program to Support Competitiveness	87.0	
Total - A : 6 Projects		223.5	
TOTAL 2003 : 6 Projects		223.5	

2004

Project Number	Project Name	IDB US\$ Millions	Status
BO0216	Reactivation of the Center of La Paz	20.0	
BO0209	Justice Sector Support	10.0	
BO0220	Support to Bolivian Competitiveness System	10.0	
BO0200	Geotechnical and Environmental Protection of the Cotapata-Santa Barbara Highway	16.0	
BO0224	Rural Electrification	10.0	
BO0207	National Transparency Program	15.0	
Total - A : 6 Projects		81.0	
BO0210	Rural Infrastructure Program	10.0	
BO1001	Restructuring of Private Enterprises	N/A	
Total - B : 2 Projects		10.0	
TOTAL - 2004 : 8 Projects		91.0	
Total Private Sector 2003 - 2004		0.0	
Total Regular Program 2003 - 2004		314.5	

*** Private Sector Project**

SECTOR PROGRAM FOR STRENGTHENING INSTITUTIONS AND PUBLIC POLICIES TO SUPPORT PRODUCTIVITY AND COMPETITIVENESS

(BO-0219)

EXECUTIVE SUMMARY

Borrower:	Republic of Bolivia	
Executing agency:	Ministry for Economic Development (MDE)	
Amount and source:	IDB: (FSO)	US\$37 million
	Total:	US\$37 million
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	24 months
	Interest rate:	1% for the first 10 years; 2% thereafter
	Inspection and supervision:	1%
	Credit fee:	0,5%
	Currency:	Those included in the Fund for Special Operations (FSO) other than Bolivia's
Objectives:	The program's objective is to help strengthen institutions and public policies in order to support productivity and competitiveness in Bolivia. As part of this effort, it will seek to create a favorable environment for the production sector, particularly so that firms with export potential can take advantage of the opportunities provided by existing foreign trade agreements. This, in turn, will help to boost economic growth and job creation (paragraph 2.1).	
Description:	This program provides for a sector loan to finance the execution of two components: (i) strengthening public institutions that support productivity and competitiveness within the framework of the Bolivian Productivity and Competitiveness System [Sistema Boliviano de Productividad y Competitividad] (SBPC); and (ii) strengthening public policy in support of the production sector in order to take greater advantage of export opportunities (paragraph 2.5). The SBPC, which was created by Executive Order in 2001, encompasses all public and private institutions that make up the support network for competitiveness at the national, departmental, and municipal levels.	

This sector loan is to be disbursed in three tranches, as follows: (i) **first tranche**: US\$15 million; (ii) **second tranche**: US\$12 million; and (iii) **third tranche**: US\$10 million. In determining the size of each disbursement, consideration has been given to the scope of the activities to be carried out for each tranche and the level of effort that their performance will require on the part of the government. Prior to each disbursement, the conditions defined in the policy matrix (see Annex I) for the corresponding tranche must have been fulfilled. Disbursement of the first tranche is expected to occur immediately after the operation has been approved by the Bank's Board of Executive Directors. The government has stated its intention to complete fulfillment of the conditions in such a way as to permit the second and third disbursements to be made in the second quarter of 2004 and third quarter of 2005, respectively.

**The Bank's
country and
sector strategy:**

The Bank's Competitiveness Strategy Document of 10 January 2003 (document GN-2243), sets out six priority areas in which the Bank should concentrate its efforts to support competitiveness in the region. One of those areas—the creation of more effective institutions to support private productive activities—is the focus of the activities being proposed for this operation. Competitiveness has also been one of the core issues in the dialogue held with the country concerning the preparation of the Bank's strategy with the country for 2004-2007. The political and institutional instability of the past few years—especially after the events of last October, which culminated in a changeover to a new Administration—has reaffirmed the wisdom of placing institutional factors alongside macroeconomic stability at the top of Bolivia's reform agenda.

The Bank and other international cooperation agencies agree with the government as to the importance of defining short- and medium-term measures for galvanizing the economy's recovery and promoting competitiveness. These measures should concern four priority areas: (a) fiscal consolidation; (b) strengthening of the banking and corporate sector; (c) reduction of obstacles to the production sector's competitive development; and (d) development of mechanisms for minimizing the recession's impact on the poorest sectors of the population.

In January 2003, the Bank promoted an initiative designed to frame a joint strategy for the efforts of all members of the IDB Group to support the reactivation of the Bolivian economy. The Regional Operations Department 1 (RE1), the Sustainable Development Department (SDS), the Private Sector Department (PRI), and the Inter-American Investment Corporation (IIC) worked on this strategy, focusing on items (b) and (c) of the priority areas of action identified by the government and international cooperation agencies. Based on

the diagnostic analyses and talks with the government, a document was prepared regarding proposed action by the IDB Group as part of a program for helping to reactivate the private sector (“Programa de Reactivación del Sector Privado: Propuesta para la Intervención del Grupo BID”). This proposal was then submitted to the Private Sector Coordination Committee. The proposal delineates three priority areas: (i) strengthening of the banking and nonbanking systems; (ii) creation of a legal framework to facilitate the restructuring and liquidation of business enterprises; and (iii) formulation of a policy package and set of measures to support competitiveness and exports.

This loan provides the means to implement the recommendations made in that document, particularly with regard to item (iii) above. It constitutes one component of a broader program by which the Bank is taking steps, in the short term, to help remove the obstacles hindering a reactivation of business activity and assist the country to overcome its fiscal crisis and, in the medium term, to reinforce factors that can have a favorable impact on competitiveness (paragraphs 1.34-1.37).

**Coordination
with other
international
cooperation
agencies:**

The program complements other international cooperation projects for the promotion of competitiveness that are being carried out in Bolivia. More specifically, it extends the scope of the efforts made over the past three years by the Andean Development Corporation (CAF) under its Andean Competitiveness Program [Programa Andino de Competitividad] (PAC). The actions provided for by the program have been coordinated with CAF and other international cooperation agencies such as the World Bank, with the European Union, and with bilateral cooperation agencies. Members of the project team have also worked with these agencies in the SBPC Follow-up Committee [Comité de Acompañamiento del SBPC], which has been created by the government to coordinate international cooperation efforts relating to competitiveness (paragraph 1.38).

**Environmental
and social
review:**

Because this is a sector program, the proposed operation will have no direct environmental impacts. It should be emphasized, however, that this operation defines competitiveness in the broad sense of the term and therefore incorporates the concepts of socially inclusive and environmentally sustainable development.

The Committee on Environment and Social Impact (CESI) did not find that any special measures or evaluations were required. It did recommend that the program’s environmental strategy be clarified, however, and that the promotion of environmentally certified products or processes be incorporated into that strategy (see paragraphs 2.23 and 4.8). The CESI reviewed the loan proposal for this operation at its meeting 43-03, held on 21 November 2003, and found that those recommendations had been suitably integrated into the document.

Benefits: The loan is intended to help strengthen institutions and public policies in support of productivity and competitiveness with a view to the creation of an environment conducive to the growth of the production sector, and particularly firms with export potential. Because it is a sector loan, these benefits will be generated indirectly over the medium and long terms; this operation is expected to generate two main benefits: (i) public institutions and policy tools that are more effective in meeting the production sector's needs; and (ii) public policies for the production sector that help remove the obstacles that hinder export activity.

The intended outcomes of the actions to be promoted during the **first component** are: (a) the SBPC will have a leadership structure that ensures it an influential position that will enable it to rally the support and interest of stakeholders, together with effective, transparent mechanisms through which the private sector can play a central role in promoting productivity and competitiveness; (b) the export promotion activities and trade negotiations conducted by the MDE and the Ministry of Foreign Affairs and Worship (MRREE) will be mutually complementary and oriented toward the same objectives and strategic direction; and (c) the agencies and units that report to the MDE will be working in an effective, coordinated manner to provide the support needed by the export sector based on the country's productivity and competitiveness agenda.

The intended outcomes of the actions included in the **second component** are: (a) the system for identifying and prioritizing bottlenecks in the sector's operations (production chains) and at subnational levels (municipios and prefectures) will be functioning effectively in helping to resolve those situations; (b) foreign trade operations will be facilitated by improvements in the mechanism for temporary clearance through customs of inputs for use in producing export products; (c) the formulation, implementation, and enforcement of intellectual property regulations will be more effective; and (d) public policies aimed at strengthening and galvanizing medium-sized firms with export potential will be in place (paragraphs 4.5-4.7).

Risks: The fragility of public policy-making and implementation processes at the present time poses an overall risk for the program and, as such, has been examined and integrated into the program's design. In designing each of the conditions set forth in the policy matrix (see Annex I), consideration has been given to the obstacles that could delay or block its fulfillment as well as the government's ability to carry out the relevant activities in the current context.

Two strategies have been used to mitigate this overall risk. First, decision-making power with respect to the conditions' fulfillment is centralized in the Executive Branch and, in virtually every case, the agencies or units responsible for implementing the required measures report to the MDE, which is the executing agency for the program. Second, each of the conditions has been discussed at length with the main stakeholders and at all relevant levels in the organizational structure. This dialogue has encouraged the stakeholders to take on ownership of the reforms and has made it possible to arrive at a sound assessment of the likelihood of their successful implementation.

Another factor that reduces this risk is the widespread recognition of the pressing need to reactivate the production sector and make it more competitive so that economic growth can resume. This awareness is evident in the new version of the Bolivian Poverty Reduction Strategy [Estrategia Boliviana de Reducción de la Pobreza] (EBRP), which places emphasis on the development of the production sector and on its role as a vector for poverty reduction.

The large fiscal deficit poses a risk in that the agencies responsible for meeting the proposed conditions may be hampered by budgetary constraints. A number of factors mitigate this risk, however. First, the cost of fulfilling these conditions is fairly low. Second, in tandem with this operation, an investment loan for the SPBC is being readied (BO-0220) which provides for activities that will complement this program. Third, since the MDE is currently heading up the economic cabinet, there is a convergence of interest on the part of the Ministry of Finance and the executing agency to fulfill these conditions.

Special contractual clauses:

The program will be executed in accordance with the terms and conditions stipulated in the loan contract. The conditions precedent to the disbursement of each tranche are: (i) maintenance of a macroeconomic environment that is consistent with the achievement of the program's objectives; and (ii) performance of the policy actions agreed upon for the relevant tranche, as specified in Chapter II and Annex I of this report.

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). This operation does not qualify as a poverty-targeted investment (PTI/SEQ) (paragraph 4.10).

Exceptions to Bank policy:

None.

Procurement: The loan proceeds may be used to finance the aggregate cost, in foreign exchange, of eligible imports from IDB member countries; the Bank's procedures for sector loans (document GN-2001-2) will apply. These procedures do not require international competitive bidding. The funds will be disbursed at the request of the borrower upon submission of evidence that all contractual conditions have been met to the Bank's satisfaction (paragraph 3.3).

I. FRAME OF REFERENCE

A. Introduction

- 1.1 Bolivia faces a number of serious political, economic, and social risks today. The economic stagnation that has taken hold in the country over the past four years, an average poverty rate of 64.6%, an increase in poverty in rural areas, where the majority of the population belongs to indigenous groups, the weak show of support for the Administration in the latest elections, and an 8.9% fiscal deficit in 2002 have led to violent confrontations that culminated in President Gonzalo Sánchez de Lozada's resignation on 17 October 2003. These problems notwithstanding, the new Administration of President Carlos Mesa has emphasized the importance of setting economic reforms in motion with a view to improving the population's living conditions and income levels.
- 1.2 Within this context, it is very important to support Bolivia in its development of strategies and policies for addressing the current crisis and promoting economic development. The country cannot run the risk of seeing the economic reform processes that made the 1990s a decade of sustained growth and tangible advances in education, gender equality, and health be reversed by the economic, social, and political difficulties that it faces today. It is essential to lay the foundations for a competitive economy so that the country can attain the development targets set forth in the Bolivian Poverty Reduction Strategy [Estrategia Boliviana de Reducción de la Pobreza] (EBRP).
- 1.3 To this end, the Government of Bolivia has requested that the Bank approve a policy-based loan (PBL) which, together with an investment loan that is also being prepared (BO-0220), will help strengthen public policies and institutions for the promotion of productivity and competitiveness. Various studies have indicated that the poor competitive position of the Bolivian economy may be the reason for the low growth rates seen in recent years. These rates have fallen short of the expectations created by the wide range of economic reforms instituted by the country during the 1990s.

B. Macroeconomic context

- 1.4 A structural adjustment program was adopted by Bolivia in the 1980s with relative success, followed by a long period of economic stability. Annual inflation has remained below 11% for the last 10 years and has stood at less than 7% for the last five, while, at the same time, the country has had a fairly stable exchange rate and, until 2001, had kept its fiscal deficit under control. Even with the reforms, however, the economy has had difficulty in sustaining a macroeconomic framework that stimulates private-sector development and investment and in maintaining high growth rates for prolonged periods of time.

- 1.5 Economic growth rates have fallen short of expectations despite the effort and depth of reforms. In the 1990s, when external conditions were favorable and stability reigned on the domestic front, the annual growth rate for the Gross Domestic Product (GDP) averaged 4% at a time when the population was growing by 2.3% per year. Between 1999 and 2002, annual growth fell to 1.7% and, if natural-gas-related activities are factored out of the calculations, then GDP growth was nearly flat and actually declined in terms of per capita income (see Table 1). This stagnation has been the result of the convergence of a number of external and internal factors, including a reduction in capital flows equivalent to around 8% of GDP, the effects of El Niño on crop farming, the coca eradication program, a slowdown in economic growth worldwide and sharp devaluations in the currencies of neighboring countries.

Table 1
Bolivian GDP and GDP/per capita growth rates

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP	1.7	4.3	4.8	4.7	4.5	4.9	5.0	0.3	2.3	1.3	2.8
GDP per capita	-0.7	1.7	2.3	2.2	2.0	2.4	2.6	-2.0	0.1	-0.9	-0.7

Source: ECLAC (1992-2001), EIU 2003 (2002), National Statistical Institute (INE).

- 1.6 On the macroeconomic front, the trend in the fiscal deficit and the fragility of the financial system have combined to create a climate of great uncertainty for private investment. The economic crisis of these last four years has hurt businesses, many of which have seen their sales drop by as much as 40%. The resulting downturn in tax revenues, together with the high fiscal cost associated with the country's pension reforms, has widened the fiscal deficit by over five percentage points of GDP, thus driving it up to 8.9% of GDP in 2002. This shortfall has been financed through the issuance of dollar-denominated domestic debt instruments to private pension funds. In consequence, the domestic debt has doubled and the financial position of the private pension funds has deteriorated. In addition, the economic situation, the regional crisis, and political uncertainty have led to an increase in the banking sector's non-performing loan portfolio and a decline in deposits by the public, thereby impairing the soundness of the financial sector and the ability of business enterprises to embark upon a reactivation. The existence of an adverse social and political climate also impedes the application of drastic adjustment measures.
- 1.7 Reactivating the production sector, raising the economic growth rate, and improving the environment for private investment in potentially job-creating sectors are the central tasks to be achieved in order to reduce poverty on a sustainable basis. This is the main conclusion of a recent Bank study on possible action by the IDB

Group in connection with a program for helping to reactivate the private sector (“Programa de Reactivación del Sector Privado: Propuesta para la Intervención del Grupo BID”) (see paragraph 1.36) and of studies conducted by other cooperation agencies, including a paper prepared by the World Bank on microeconomic constraints and opportunities in Bolivia (“Bolivia: Restricciones y oportunidades microeconómicas para un mejor crecimiento”, World Bank, 2001). How is such a reactivation to be brought about in a small, sluggish, highly dollarized market? These studies indicate that the production sector’s reactivation hinges on Bolivia’s successful implementation of an export-oriented competitiveness strategy.

C. Challenges involved in implementing a competitiveness strategy to boost export growth

- 1.8 The export sector’s performance during the past decade has been fairly poor despite the growth seen in the natural gas sector and the soybean harvest. In the 1990s, Bolivian exports rose at an average annual rate of 4.8%, as compared to an average rate of 7.2% for Latin America as a whole. What is more, over the past 12 years, imports have grown much faster than exports, and the country has therefore tended to run a trade deficit. (The deficit amounted to US\$398 million in 2002, or the equivalent of 5% of GDP.) Exports continue to be concentrated in goods with low value-added, with just five products accounting for 60% of the total: natural gas (18.9%), soybean meal (16%), zinc (9.8%), gold (8.4%), and soybean oil (7.2%). These sectors have a relatively small impact on employment, and it is therefore estimated that growth based solely on these exports will be insufficient to absorb the 100,000 workers per year that will be entering the labor market during the coming decade.
- 1.9 The export performance of sectors with a strong job creation potential, such as cotton and woolen clothing, leather and wood manufactures, and fresh vegetables and fruit, has been poor. Bolivia has had preferential access to the United States’ market for over a decade under the Andean Trade Preference Act (ATPA) and, more recently, the Andean Trade Promotion and Drug Eradication Act (ATPDEA),¹ as well as to the European market under the Generalized System of Preferences (GSP),² but the country has not taken full advantage of these agreements. For

¹ The Andean Trade Promotion and Drug Eradication Act (ATPDEA), which was ratified in September 2002, supersedes the Andean Trade Preference Act (ATPA). Starting in 1991, 100% tariff preferences for entry into the United States’ market were being granted under the ATPA to specified products from Colombia, Peru, Bolivia, and Ecuador in return for those countries’ drug eradication efforts. The ATPDEA extends these tariff preferences until 31 December 2006 and adds around 700 more products to the ATPA list, including clothing, leather manufactures, wood manufactures, and jewels. These products, which were not on the ATPA list, are ones in which Bolivia may have comparative advantages.

² As a member of the Andean Community, Bolivia is entitled to trade under the terms of the GSP with the European Union, which grants full or partial tariff reductions on exports (with the exception of what are classified as “sensitive products”) to countries belonging to the Andean Community.

example, only 44% of its total exports to the United States in 2001 entered that market under the ATPA. This represents a decline of almost 13 percentage points in the utilization of that agreement since 1991, when it entered into effect. Bolivia has also made much less use of the ATPA than its Andean neighbors. Whereas exports from Colombia, Ecuador, and Peru that were cleared under the ATPA rose by an average of 19.5% per year between 1993 and 2001, the figure for Bolivia was just 6.7%. By the same token, only 50% of Bolivian exports to the European Union in 2001 entered under the terms of the GSP (see Table 2). Moreover, exports to the European Union have actually decreased by 66% over the past five years.

- 1.10 Firms in nontraditional sectors face in-house and external problems that make it harder for them to take advantage of these preferential agreements. Most Bolivian companies operate on a small scale, have weak management systems, and cater to the domestic market. But even medium-sized and large firms that have upgraded their management systems encounter bottlenecks related to illiquidity and a lack of access to financing, shortcomings in transport infrastructure, weak links in supply chains, high market entry costs, flaws in the legal and institutional structures, and problems in the formulation and implementation of public policies aimed at promoting export activities.

Table 2. Trade balance, by destination market and percentage of total exports (by value) traded under the relevant agreement (in millions of dollars)

Trade agreement	Exports, 2002	Use of agreement	Trade balance, 2002
Andean Community	382	85%	233
MERCOSUR	353	80%	-355
United States	194	44%	-102
European Union	94	50%	-51
Chile	30	63%	-91
Mexico	n.a.	90%	n.a.
Other	444	n.a.	-33
Total exports	1,303	n.a.	-398

* Use of agreement in 2001

n.a. = Not available.

IBCE (2003) and INE (2003). Trade balance includes re-exports.

- 1.11 Turning this situation around is a complex task that calls for a comprehensive, systematic, long-term competitiveness strategy. As indicated by the competitiveness rankings of the World Economic Forum (WEF), Bolivia does not offer a very business-friendly environment. Its extremely low ranking (78th out of 80 countries, or the 2.5 percentile) on the Growth Competitiveness Index indicates

that the country lacks the array of economic policies and institutions needed to help achieve high growth rates over the medium term. Even more disturbingly, its ranking on the Microeconomic Competitiveness Index (79th out of 80 countries, or the 1.25 percentile) indicates that Bolivia does not even have the institutions, market structure, or business strategies that it needs to maintain its current growth rate.³ In order to deal with this situation, an export-oriented competitiveness strategy must be developed. Before any initiative to bolster the country's competitiveness is launched, however, it is important to realize that, at this point in time, Bolivia faces three formidable challenges that will limit the scope of action of any reform program: severe fiscal constraints, weak public institutions, and a precarious political environment.

**Table 3. Bolivia – Competitiveness ranking, 2002
(Out of a total of 80 countries)**

<i>Growth Competitiveness Index</i>	78
Technology	77
Public institutions	69
Macroeconomic environment	76
<i>Microeconomic Competitiveness Index</i>	79
Corporate operations and strategies	79
Business environment	78

Source: Global Competitiveness Report, 2002-2003

- 1.12 The fiscal deficit places strong constraints on the implementation of investment programs that are vital in order to improve the country's competitive position. Transport infrastructure programs are a case in point since, given the fact that Bolivia is a landlocked country, such programs are a crucial component in making Bolivian companies more competitive. The fiscal situation also generates uncertainty and risks that distort investment efficiency.
- 1.13 The institutional weakness of the State has diminished its ability to deal with bottlenecks that lower the private sector's productivity. First, the public sector's institutions are widely dispersed and lack suitable coordination mechanisms to allow an efficient allocation of resources and definition of roles. Even though there are many different services that provide support for businesses, they are isolated from one another and have not yet attained the effective coordination they need in order to have a genuine impact on productivity. Second, the channels for interaction between public agencies and the private sector are insufficient and lacking in transparency. This leads these two key economic agents to distance themselves

³ The first index is a weighted average of indicators measuring each country's relative position in three major areas: technology, the quality of its public institutions, and its macroeconomic environment. The second is a weighted average of two subindices: one that measures the developmental stage of firms' operations and strategies, and another that measures the quality of the business environment.

from one another and prevents the State from accurately identifying priority areas for action.

- 1.14 The political environment also hampers progress toward the introduction of important legal reforms for boosting competitiveness. The splintering of Congress into numerous political factions in the wake of the elections of 2002 greatly reduces the chances that it will pass any extensive reforms in the regulatory system that require a congressional consensus, such as the proposed reforms of the Code of Commerce and the Labor Code, which would have a strong impact on the business environment and the competitive position of business enterprises.
- 1.15 Given the constraints associated with this difficult political and economic situation, the possibility of making headway toward a competitiveness strategy that focuses on export growth lies in the strengthening and articulation of institutions that play a key policy-making role, particularly in policy areas focusing on a fuller utilization of export opportunities. This was the conclusion reached in the course of an in-depth dialogue held during the program's preparation with associations and entrepreneurs in the campesino, crafts, timber and wood, jewelry, agroindustrial, textile, and clothing industries, as well as with officials of the current Administration, former civil servants and public officials, scholars, and representatives of nongovernmental organizations and of international cooperation agencies.

D. Institutions to promote competitiveness: the Bolivian Productivity and Competitiveness System [Sistema Boliviano de Productividad y Competitividad] (SBPC)

- 1.16 Bolivia is at a very early stage in the formulation, coordination, and articulation of policies and programs to backstop the production sector. Although 2001 marked the official launch of an agenda for strengthening public policies and institutions in support of productivity and competitiveness, the development and consolidation of this agenda calls for a major, coordinated effort on the part of the public and private sectors.

1. Creation of the SBPC

- 1.17 As a first step in its effort to align and coordinate policies and programs aimed at promoting the business sector, the government established the SBPC by Executive Order No. 26,391 in November 2001. The SBPC was created to achieve four objectives: (a) establish a common strategy and approach for the public and private sectors regarding the promotion and strengthening of productivity and competitiveness in the country over the long term; (b) analyze productivity and competitiveness policy options and make recommendations in that regard; (c) monitor and follow up on policies and activities relating to productivity and

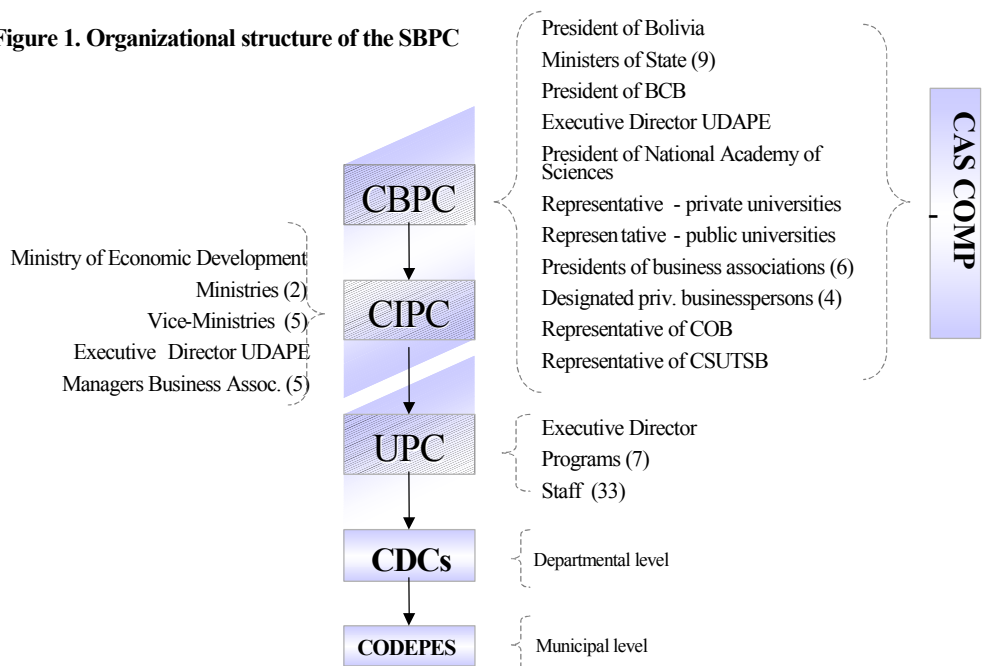
competitiveness; and (d) coordinate institutional policy implementation efforts so that they will function as an integrated system.

2. The SBPC's organizational structure

a. Private-sector leadership and participation mechanisms

- 1.18 The SBPC encompasses a number of public and private institutions that play an important role in forming the institutional structure for economic development, designing mechanisms for reinforcing the production sector, and reducing obstacles to the promotion of productivity and the improvement of competitiveness at the national, departmental, and municipal levels with a view to their impact at the international level. Its organizational structure comprises three decision-making levels, as shown in Figure 1.
- 1.19 The first level is the Bolivia Productivity and Competitiveness Council [Consejo Boliviano de Productividad y Competitividad] (CBPC), which is the political arm of the SBPC. This body is composed of the President of Bolivia, who chairs it, cabinet ministers, members of the private sector (the chairs of the national chambers of industry, commerce, and exporters), and representatives of workers and academic institutions. Its job is to define priority lines of public policy for the development of the country's productivity and competitiveness within the framework of a strategic alliance encompassing the public, private, and academic sectors.
- 1.20 The second level consists of the Inter-Agency Productivity and Competitiveness Committee [Comité Interinstitucional de Productividad y Competitividad] (CIPC), whose task is to advise and backstop the SBPC in coordinating its member institutions' implementation of policies that have been assigned priority at the first decision-making level. The CIPC is chaired by the Minister of Economic Development and is composed of representatives of various ministries and vice-ministries whose duties relate to foreign trade, industry, agriculture, and microenterprise, together with the Social and Economic Policy Analysis Unit [Unidad de Análisis de Políticas Económicas (UDAPE)], and the general managers of the country's five largest trade associations or unions.
- 1.21 The third decision-making level is the Productivity and Competitiveness Unit [Unidad de Productividad y Competitividad] (UPC), under the supervision of the MDE. The UPC's role is to serve as the SBPC's technical secretariat and, as such, to articulate the network of institutions making up the system. Its duties include the establishment of mechanisms for analyzing and designing policies for enhancing the production system's productivity and competitiveness; promotion of such policies; development of strategic plans and competitiveness agreements with departments, municipios, and production chains; facilitation of inter-agency coordination; and policy follow-up.

Figure 1. Organizational structure of the SBPC



CBPC: Bolivian Productivity and Competitiveness Council
CIPC: Inter-Agency Productivity and Competitiveness Committee
UPC: Productivity and Competitiveness Unit
BCB: Central Bank of Bolivia / **COB:** Workers' Federation of Bolivia

CDCs: Departmental Competitiveness Committees
CODEPES: Prod. Sector, Economic and Social Dev. Councils
CAS-COMP: Follow-up Committee for International Cooperation
CSUTCB: Campesinos Confederation of Bolivia

- 1.22 The two other bodies that play an important leadership role within the SBPC are the SBPC Follow-up Committee [Comité de Acompañamiento del SBPC] (CAS-COMP), formed by representatives of international cooperation agencies active in Bolivia, and the Departmental Competitiveness Committees [Consejos Departamentales de Competitividad] (CDCs), which coordinate regional policies and investments in support of productivity and competitiveness within each department. The CDCs of each of the country's nine departments encourage participation at the regional level by the various public and private stakeholders, such as the private unions and associations of the corresponding department, as well as each department's prefecture, mayors' offices, universities, and/or technical institutions. In addition, the CDCs are responsible for liaison with the Production-Sector, Economic and Social Development Councils [Consejos de Desarrollo Productivo, Económico y Social] (CODEPES), which operate at the municipal level. The CDCs and CODEPES have been created in order to provide a way for business enterprises and the State to maintain a dialogue at all levels, i.e., through the UPC at the central level, the CDCs at the departmental level, and the CODEPES at the municipal level.

b. Changes introduced by Act No. 2446

- 1.23 The Executive Branch Organization Act (Act No. 2446) of March 2003 has brought about major changes in some of the SBPC member institutions that open up new opportunities for strengthening that system. As a result of these changes, the MDE oversees a series of institutions that provide support services to companies in key areas of the production and export development process, such as: export and investment promotion (Bolivian Promotional Center [Centro de Promoción Bolivia-CEPROBOL]), technical assistance and training (Technical Assistance Service [Servicio de Asistencia Técnica-SAT]), accreditation and quality certification (Bolivian Accreditation Agency [Organismo Boliviano de Acreditación-OBA] and the Bolivian Metrology Institute [Instituto Boliviano de Metrología-IBMETRO]), assistance to small businesses (Bolivian Small Industry and Crafts Institute [Instituto Boliviano de Pequeña Industria y Artesanía-INBOPIA]), and the protection of intellectual property (National Intellectual Property Service [Servicio Nacional de Propiedad Intelectual-SENAPI]). In addition, units are in place that are responsible for processing export operations (the Single Export Window [Sistema de Ventanilla Única de Exportación-SIVEX]) and the SBPC's own UPC.
- 1.24 These organizations, all of which are operational except the UPC, are not yet suitably coordinated with the policies of the MDE or among themselves, and this limits their potential impact as agents of the production and export sectors' development. There is also concern about their ability to retain sufficient personnel for their technical teams, given the possibility of political intervention at this level. Nonetheless, this reorganization opens up an invaluable opportunity for creating closer links among the operating units of the SBPC, since most of them now report to the same ministry. The MDE has, in effect, become the *de facto* head of the effort to further and strengthen the SBPC and has assumed responsibility for ensuring that the system's member institutions work in coordination with one another.
- 1.25 Act No. 2446 modified the institutional structure of the country's export promotion efforts by paring it down from three ministries (the Ministry of Foreign Trade and Investment (MCEI), the Ministry of Foreign Affairs and Worship (MRREE), and the MDE) to two (the MDE and MRREE) and defining the functions of each more clearly. For example, in the area of international economic negotiations, it is the MDE's job to propose what position should be taken on technical aspects relating to trade agreements, while it is the MRREE's responsibility to represent the country and coordinate the negotiation of such agreements. In the area of export promotion, the MDE is in charge of proposing policies, regulations, and directives, while the MRREE is responsible for promoting the country's interests in the international arena. It is also the MRREE's job to coordinate and supervise Bolivia's foreign service offices abroad.

- 1.26 The functional clarifications provided by Act No. 2446 notwithstanding, problems in the areas of coordination and the delimitation of functions between the two ministries continue to exist. First of all, while the agency responsible for promoting exports and investment, CEPROBOL, reports to the MDE, the commercial attachés, who used to report to CEPROBOL when it was part of the MCEI, now report to the MRREE. In addition, the existing mechanisms for coordination between the MDE and the MRREE do not ensure effective coordination between CEPROBOL and these attachés. On another front, the MRREE has decided to increase its role in the provision of external network services by expanding its work in the area of economic and commercial promotion (covered by just seven commercial attachés) to include its consulates (111) and embassies (34). When this measure is implemented, it will provide Bolivia with an external economic/commercial network that is global in scope. However, the relationship between this network of embassies and consulates, on the one hand, and CEPROBOL, on the other, is not yet clearly or formally defined, which detracts from CEPROBOL's ability to service an expanded number of markets.
- 1.27 In addition, coordination between the two ministries in terms of trade negotiation policy is insufficient. For example, the MDE and the MRREE lack mechanisms for discussing and coordinating a market development strategy that would enable the country to adopt a coherent position with regard to negotiations (Andean Community-MERCOSUR and the Free Trade Area of the Americas (FTAA)). Nor are there formal channels for incorporating the private sector into the definition of this strategy and/or the country's position in such trade negotiations.

3. Achievements, challenges, and opportunities for the SBPC

- 1.28 Since its creation, the SBPC has sought to carry out its work in the following six areas: (i) conducting studies to promote public policy reforms that will boost the productivity and competitiveness of the production apparatus; (ii) mapping out production systems and developing indicators for use in improving the design of public policies and the allocation of investment resources; (iii) backstopping production chains in an effort to help resolve, on a comprehensive and participatory basis, the problems that are constraining the development of the production sector; (iv) streamlining administrative procedures to facilitate the formal constitution of business enterprises and to increase the transparency of the State's relations with its citizens; (v) forming linkages between academic institutions and the production sector with a view to developing tools and mechanisms for promoting an export culture and upgrading the quality of management and productivity; and (vi) making information available to all social stakeholders.
- 1.29 The SBPC has made progress in identifying 14 production chains that have export potential (quinoa, oilseeds, wood and wood manufactures, textiles and cotton, camelid breeding, tourism, grapes, wine and Singanis, leather and leather manufactures, Brazil nuts, beef, bananas, palm hearts, wheat, and poultry) and in

developing methodologies for improving the articulation of the public and private sectors within these chains. The policy instruments that were created for this purpose are known as the Bolivian Competitiveness Agreements [Acuerdos Bolivianos de Competitividad] (ABCs). The ABCs are public-private agreements defining commitments made with a view to resolving the bottlenecks that restrict these chains' growth potential. In addition, the Bolivian Municipal Competitiveness Agreements [Acuerdos Bolivianos de Competitividad Municipales] (ABCMs) and Bolivian Prefecture Competitiveness Agreements [Acuerdos Bolivianos de Competitividad Prefecturales] (ABCPs) were devised to permit the application of this instrument at the corresponding subnational levels of governance. The ABCMs seek to improve the municipal environment for the establishment of business ventures and to align public investments at the local level by including them in the Annual Operational Plans and the Municipal Development Plans. The ABCPs seek to give the prefectures a more active role in building up productivity, especially through the maximization of budgetary allotments for infrastructure development. To date, two ABCs have been signed (one with the quinoa production chain and one with the oilseeds chain), but the preparation of a number of other such agreements is well on its way.

- 1.30 During the few years that have passed since its creation, the SBPC has made a great deal of headway. Fashioning a system to promote and support competitiveness is a long-term undertaking, however, which calls for the development of institutional capabilities at various levels. Changes in government priorities, along with a number of flaws in the system's original structure, have prevented its consolidation. Specifically, since the change in Administration in August 2002, the SBPC structure has not been given the forward momentum it needs. A study recently presented to international cooperation agencies active in Bolivia identifies major weaknesses that limit its effectiveness. The main such shortcomings are the following:
- a. The public and private sectors lack a shared strategic vision about how to boost competitiveness and economic growth.
 - b. A lack of clarity exists with regard to the SBPC's leadership, and within the Administration there is no agreed definition of its functions or operational mechanisms. As a result, neither the CBPC nor the CIPC have met during the last year.
 - c. The UPC has been weakened by bureaucratic rivalries, uncertainty on the part of technical staff, and confusion about its role within the SBPC.
 - d. Spokespersons for the private sector and academic institutions complain that the SBPC bodies on which they are represented do not meet and that their participation therefore exists in word only.

- e. Existing instruments for concerted public-private action and for addressing the bottlenecks that are hindering the operations of production chains (ABCs) lack follow-up mechanisms that would ensure their effective implementation.
 - f. These institutional weaknesses interfere with the inter-agency coordination needed in order to support the production sector. In addition, they undermine the credibility of competitiveness initiatives and of the SBPC itself, since no concrete results are in evidence.
- 1.31 The current situation attests to the need to strengthen the SBPC's strategy and engage in discussions at a high political level regarding this instrument. These discussions should cover such aspects as its leadership structure, mechanisms for public- and private-sector participation, and support platforms for the production sector. A proposal has been put forward by outside consultants who have worked with the UPC for promoting a common, growth-based approach and reinforcing the SBPC's existing institutional structure. This proposal devotes particular attention to: (i) defining strategic guidelines for the SBPC; (ii) redefining the roles of the CBPC, CIPC, and UPC; (iii) strengthening mechanisms for private-sector participation both nationally and at the regional level through the CDCs; and (iv) building a network and platforms for export promotion efforts.

E. The country strategy in this sector

- 1.32 The EBRP, which guides government action in social and economic matters, is designed to help the country reach its goal of cutting the poverty rate to 53.7% by 2015. If this goal is to be met, the economy will have to grow at rates of over 5% per year. The EBRP reflects an awareness that the business sector's contribution to this effort is of fundamental importance and that it is therefore essential to clear away the institutional and economic obstacles that impede the transformation of production and competitiveness patterns in the agricultural and manufacturing sectors. The EBRP strategy document also notes that this would open the way for expanding employment opportunities. Within this context, the SBPC will be entrusted with facilitating efforts to change the country's production patterns through the adoption of an approach based on production chains and competitiveness agreements.
- 1.33 The sustainability of this initiative for boosting competitiveness and growth will depend on the level of response capacity and delivery performance, which, if sufficient, will uphold the credibility of the SBPC and will gradually set the stage for efforts to take on more difficult issues. Reactivating the production apparatus by taking advantage of existing trade agreements, particularly the ATPDEA, appears to be a viable course of action that holds out the possibility of serving as a springboard for a competitiveness strategy.

F. The Bank's strategy with the country in this sector

- 1.34 The Bank's Competitiveness Strategy document of 10 January 2003 (document GN-2243), sets out six priority areas in which the Bank should concentrate its efforts to support competitiveness in the region. One of those areas—raising the effectiveness of institutions supporting private productive activities—is the focus of the activities being proposed for this operation. Competitiveness has also been one of the core issues in the dialogue held with the country concerning the preparation of the Bank's strategy with the country for 2004-2007. The political and institutional instability of the past few years, especially after the events of last October, has reaffirmed the wisdom of placing institutional factors alongside macroeconomic stability at the top of Bolivia's reform agenda in order to increase economic growth on a sustainable basis.
- 1.35 The Bank and the other international cooperation agencies concerned are in agreement with the government as to the importance of defining short- and medium-term actions to stimulate an economic reactivation and promote competitiveness. These actions refer to four priority areas: (a) fiscal consolidation; (b) strengthening the banking and corporate sector; (c) reducing obstacles to the production sector's competitive development; and (d) developing mechanisms for minimizing the recession's impact on the poorest sectors of the population.
- 1.36 In order to define the specific actions to be taken, in January 2003, the Bank promoted an initiative designed to frame a joint strategy for the efforts of all members of the IDB Group to support the reactivation of the Bolivian economy. The Regional Operations Department 1 (RE1), the Sustainable Development Department (SDS), the Private Sector Department (PRI), and the Inter-American Investment Corporation (IIC) worked on this strategy, focusing on items (b) and (c) of the priority areas of action identified by the government and international cooperation agencies. A document was prepared regarding proposed action by the IDB Group as part of a program for helping to reactivate the private sector ("Programa de Reactivación del Sector Privado: Propuesta para la Intervención del Grupo BID"). This proposal was then submitted to the Private Sector Coordination Committee. The proposal delineates three priority areas: (i) strengthening of the banking and nonbanking systems; (ii) creation of a legal framework to facilitate the restructuring and liquidation of business enterprises; and (iii) formulation of a policy package and set of measures to support competitiveness and exports.
- 1.37 The proposed sector loan is oriented toward the objective set forth in item (iii) in particular. This loan constitutes one component of a broader program by which the Bank is taking steps, in the short term, to help remove the obstacles hindering a reactivation of business activity, assist the country to overcome its fiscal crisis and, in the medium term, reinforce factors that can have a favorable impact on competitiveness. The first category of activities includes, inter alia, the following operations: (a) a Sector Program to support fiscal sustainability (BO-0213); (b) the

Support Program for the Bolivian Productivity and Competitiveness System (BO-0220), which is in the preparatory stage and provides for investments that will complement and support a number of the policy reforms to be promoted by the proposed program; (c) the Institutional Support to Strengthen Foreign Trade Program (BO-0212), which seeks to reinforce Bolivia's trade negotiation power; and (d) the Comprehensive Support Program for Microenterprise and Small Businesses, which is aimed at improving such firms' technical capabilities (BO-0197). Projects dealing with matters that have an impact on competitiveness include the following loan operations, which are in their preparatory stages: (a) the Rural Infrastructure Program (BO-0210); (b) the Land Reclamation and Registration Program (BO-0221); and (c) the Rural Production Support Program (BO-0179); and operations that are already underway include (d) the Agricultural Services Program (BO-0176), in addition to various rural roadway and electrification initiatives which are helping to overcome infrastructural shortcomings, such as (e) the construction of the Santa Cruz–Puerto Suárez highway (BO-0036) and (f) the Ventilla-Tarapaya roadway (BO-0098).

G. Coordination with other international cooperation agencies

- 1.38 This program complements the major international cooperation programs being conducted in the field of competitiveness in Bolivia. More specifically, it will add to the work that has been carried out over the last three years by the Andean Development Corporation (CAF) under its Andean Competitiveness Program (known by its Spanish acronym, PAC). The PAC has been financing the diagnostic assessments and methodological studies that have been used to prepare the ABCs that are now in place (on soybeans and quinoa), as well as funding studies on four other production chains (grapes, wine, and Singanis; wood and wood manufactures; leather and leather manufactures; and textiles and clothing). These studies will serve as a basis for the preparation of the competitiveness agreements for these production chains, which have been identified as conditions for this sector loan. In a parallel effort, the World Bank Group, working through the International Finance Corporation (IFC), is opening an office in Bolivia to design, promote, and coordinate programs in support of competitiveness among small and medium-sized enterprises using an approach based on production chains. The activities provided for in this program have been coordinated with both institutions, as well as with other international cooperation agencies such as the World Bank, the European Union, and cooperation agencies based in the United Kingdom (DFID), Switzerland (SECO), Sweden (ASDI), the Netherlands (DGIS), Denmark (DANIDA), and the United States (USAID). The Bank has also been involved in the SBPC Follow-up Committee, which was created by the MDE to coordinate international cooperation efforts.

H. Lessons learned

- 1.39 Although the Bank has not yet completed the implementation of any sector programs to promote competitiveness, there are a number of sources—starting with general sector programs—from which lessons in this area can be derived. Experience shows that how important it is for the stakeholders to take ownership of the proposed reforms, since this increases their sustainability and makes their implementation more effective. Close coordination and joint efforts with international cooperation agencies are also key factors that allow technical skills to be shared, duplication of work to be avoided, and more effective interaction with the country to take place. Experience also shows that, during the formulation of a sector operation and the design of each of the proposed actions, it is very important to consider not only each action's theoretical relevance and its importance in the experience of other countries, but also the particular features of the country and its capacities, so that the conditions established for the operation will be relevant, measurable, and feasible (see paragraphs 4.1-4.4). These lessons have been fully incorporated into the design of the program.
- 1.40 Another source of lessons in this field is the experience that has been gained with investment programs aimed at boosting competitiveness. These experiences underscore the importance of ensuring that the private sector plays an active leadership role in defining and implementing policies and programs in support of competitiveness. Experience also indicates that success in producing concrete results early on is vital in order to lend credibility and continuity to this type of initiative. The reason why this program places a great deal of emphasis on ensuring private-sector participation and makes the redesign and monitoring of ABCs a condition precedent to loan disbursement is precisely in order to increase the likelihood that those commitments will be fulfilled and that positive results will be produced in the short run.
- 1.41 There are also experiences referring particularly to Bolivia which demonstrate the importance of maintaining a dialogue with civil society. The EBRP was one of the outcomes of such a dialogue, and it has set a precedent in terms of the importance of consensus-building as a basis for the management of public policies and strategies in Bolivia. The measures required to satisfy the conditions established by the program will promote this type of dialogue and strengthen the public sector's ability to lead this process.

I. Program strategy

- 1.42 The activities to be promoted by this program are directed toward strengthening institutions, public policies to promote competitiveness, and macroeconomic stability. The first component of the strategy is to reinforce the SBPC's leadership mechanisms and private-sector participation, together with channels for the articulation and coordination of the key members of that system. The second is to

strengthen a number of the existing policy instruments, such as the ABCs, so that they can be used to help identify and resolve the bottlenecks that hinder the production sector and to facilitate a fuller utilization of existing trade agreements. The third is aligned with the core objective of the country's agreement with the International Monetary Fund (IMF), which is to help Bolivia to return to a stable fiscal and financial path.

II. THE PROGRAM

A. Objectives

- 2.1 The program's objective is to help strengthen institutions and public policies in order to support productivity and competitiveness. As part of this effort, it will seek to create a favorable environment for the production sector, particularly so that firms with export potential can take advantage of the opportunities provided by existing foreign trade agreements. This, in turn, will help to boost economic growth and job creation.

B. Macroeconomic framework

- 2.2 Fiscal sustainability, together with financial and political stability, are critical elements in supporting a competitiveness strategy. The situation in Bolivia on these fronts is uncertain, and this is reflected in a deteriorating business environment and a downturn in private investment. Against this backdrop, the country's stand-by agreement with the IMF and the fiscal, financial, and social assistance programs being conducted by the IDB and the World Bank provide support for measures aimed at curbing the expansion of the fiscal deficit, reversing the downward trend in the production and financial sectors, and cushioning the impact of the crisis on the most vulnerable sectors of the population. These activities are a first step toward creating a more favorable environment for sustainable economic growth.
- 2.3 The IMF agreement entails the adoption of measures in three areas: fiscal matters, monetary policy, and the restructuring of the banking and corporate sectors. The fiscal measures to be adopted have been incorporated into the 2003 budget. The actions called for in respect of monetary policy include measures to limit the expansion of domestic credit, especially credit to be used in covering the public sector's deficit. The agreement's provisions regarding the restructuring of the banking and corporate sectors call for measures to strengthen the financial sector's institutional and regulatory structure and the development of a legal framework that will facilitate corporate restructuring. These measures are referred to in the sector policy letter.
- 2.4 In order to contain the growth of the fiscal deficit and promote macroeconomic stability, one of the conditions precedents to the disbursement of this loan is that the macroeconomic policy framework be consistent with the guidelines established in the sector policy letter (Annex III).

C. Program structure

- 2.5 This program is a sector loan focusing on the execution of two components: (i) the strengthening of public institutions in support of productivity and competitiveness

within the framework of the SBPC; and (ii) the reinforcement of public policies in support of the production sector in order to help it take greater advantage of export opportunities.

- 2.6 In tandem with this operation, the Bank is working on an investment loan program (Support Program for the Bolivian Productivity and Competitiveness System-BO-0220). This investment loan will, in addition to financing consultancies, technical assistance, and training activities designed to build up technical capabilities for competitive policy analysis and coordination, provide for measures that will contribute to the fulfillment of the conditions established for the sector program. Operation BO-0220 will also fund the development of indicators and the start-up of a kind of Bolivian competitiveness observatory to monitor the impact generated by the policies of the SBPC and, in particular, the ABCs; it will also fund specific projects aimed at resolving the bottlenecks identified in the ABCs.

1. Component I: Strengthening public institutions that support productivity and competitiveness within the framework of the SBPC

- 2.7 **Background.** The SBPC has been one of the few State initiatives that has weathered the political and social turbulence of the past few years. A study completed in March 2003 which was circulated to the international community in Bolivia does, however, identify major weaknesses (as listed in paragraph 1.30) that reduce the SBPC's effectiveness.
- 2.8 This component will backstop institution-strengthening actions in three areas. As a first step, an effort will be made to reinforce the three levels of the SBPC's structure, which are the CBPC, the CIPC, and the UPC. Second, the project will work with two of the key ministries in the SBPC in the areas of competitiveness and exports: the MDE and the MRREE. Third, as part of this component the project will also focus on the MDE itself, which is where the SBPC is based, in an effort to improve the workings of its operational arms. A more specific description of the objectives and tasks to be pursued in each of these three areas is given below.

a. Strengthening the SBPC's institutional structure

- 2.9 **Problem.** The SBPC exhibits weaknesses in its organization and functional structure in the areas of leadership and its ability to rally the support and interest of stakeholders, mechanisms for private-sector participation, and the articulation of its member institutions. Even though the CBPC and the CIPC are suitably organized and are representative of the highest authorities of the public and private sectors, in practice this structure is not working. This situation is largely attributable to the discrepancy between the government's view as to the urgency of being able to show results quickly and the slow, long-range process involved in building a strategic platform for competitiveness. Another consideration is that although the UPC, which serves as the technical secretariat and coordinator for the operational

arms of the SBPC, plays a leading policy-making role in the system, its duties need to be more clearly defined. Steps also need to be taken to ensure its funding and the stability of its technical staffing table.

- 2.10 **Objective and proposed actions.** This subcomponent is aimed at strengthening the SBPC's institutional structure so that it can properly perform its vital role in promoting productivity and competitiveness in Bolivia. The following actions will be required as conditions precedent to the disbursement of the *first tranche* of the loan: (i) submission by the UPC of the proposal for strengthening the SBPC's organizational and functional structure to the MDE and the Ministry for Campesino and Agricultural Affairs.⁴ This proposal should include, as a minimum, actions for strengthening: (a) the system's ability to rally support and interest through effective leadership; (b) its mechanisms for private-sector participation; and (c) the UPC's role as the technical secretariat and coordinator of the SBPC's operational arms; and (ii) approval by the MDE of the Administrative Organizational System [Sistema de Organización Administrativa (SOA)]⁵ for the UPC, which should provide for at least the minimum technical staffing table needed for the UPC to perform the duties outlined in its terms of reference as determined by the National Public Administration Service [Servicio Nacional de Administración Pública] (SNAP).
- 2.11 Conditions precedent to disbursement of the *second tranche* will be: (i) approval by the borrower of a consensus-based proposal in the context of the CIPC for strengthening of the SBPC; (ii) adoption by the MDE of the budgetary provisions required to cover the items in the UPC's SOA that have been approved.
- 2.12 Conditions precedent to release of the *third tranche* will be: (i) implementation of the proposal for strengthening the SBPC approved during the disbursement period covering the second tranche. Fulfillment of this condition is to be corroborated through the submission of a progress report indicating what advances have been made in the proposal's implementation, which should demonstrate, as a minimum, that: (a) periodic meetings of the CBPC or of an equivalent first-tier organ of the SBPC have been held and conducted in accordance with the conditions approved in the second tranche; (b) periodic meetings of the CIPC or of an equivalent second-tier organ of the SBPC have been held in accordance with the conditions approved in the second tranche; (c) the CDCs are operating within the context of the SBPC in

⁴ It is extremely important for the Ministry for Campesino and Agricultural Affairs to review the SBPC proposal because the first links in most of Bolivia's production chains are in the crop-farming and livestock sectors.

⁵ The SOA is the system used to define the administrative structure of government agencies, including their organizational charts. The authority in charge of the system's application (the National Personnel Administration Service [Servicio Nacional de Administración de Personal] (SINAP)) makes sure it is consistent with the system, and the SOA is then approved by the Ministry responsible for the organization in question.

at least four departments; and (d) the UPC has held events for the purpose of communicating and disseminating the SBPC's advances to civil society and the business sector corresponding to the production chains to which priority has been assigned. (ii) Sufficient personnel have been hired under the terms of the Civil Service Employment Statute to give the UPC at least the minimum technical staff strength it needs to do its job properly.

b. Strengthening the mechanisms for coordinating the MDE and the MRREE

- 2.13 **Problem.** Although Act No. 2446 has improved the institutional support structure for export activity by paring it down to two ministries (the MDE and MRREE) and defining each ministry's functions more clearly, problems of coordination persist between the two in the areas of export promotion and international negotiations, and these problems need to be addressed. At present there are no clear-cut mechanisms for coordinating the network of commercial attachés, embassies, and consulates that are supervised by the MRREE and the export promotion agency, CEPROBOL, which reports to the MDE. This detracts from CEPROBOL's ability to perform its trade promotion functions properly. In addition, although it is the MDE's job to propose what position should be taken on technical aspects covered in trade agreements, and it is the MRREE's responsibility to represent the country and coordinate the negotiation of such agreements, there are no mechanisms for coordinating the work of the two or their efforts with the private sector. Coordination of this type is needed in order to permit the country to adopt an institutionally consistent stance in such negotiations (see paragraphs 1.25-1.27).
- 2.14 **Objective and proposed actions.** If export promotion activities and international trade negotiations are to be conducted more effectively, mechanisms for the coordination of the MRREE and MDE must be reinforced. In view of this situation, one of the conditions precedent to release of the *first tranche* will be the submission of a management agreement between the two ministries which proposes measures for addressing the following issues: (a) strengthening of the external foreign trade network of commercial attachés, embassies, and consulates; and (b) articulation and coordination between public-sector institutions and between them and private-sector institutions to undertake international trade negotiations. One of the conditions precedent to the disbursement of the *second tranche* will be a signed management agreement between the MRREE and the MDE in which they make a commitment to implement the actions proposed during the period covered by the previous tranche. Implementation of the signed during the period covered by the second tranche will be a condition precedent to the *third tranche*. Evidence of implementation will be provided through the submission of a progress report that indicates what advances have been made in its execution. The report should contain the following elements: (a) evidence of the existence of a formally established forum for the staff of the MDE, the MRREE, and private-sector entrepreneurs that will provide an opportunity to engage in an in-depth analysis and formulate policy

with a view to helping Bolivia strengthen its position in the trade negotiations pursued by the country, together with evidence that meetings of this forum have been held periodically; (b) evidence that there is at least one full-time trade promotion specialist working in each of Bolivia's two most important markets; and (c) evidence that the procedure used for the selection of commercial attachés meets technical standards.

c. Strengthening the operational arms of the SBPC

- 2.15 **Problem.** In addition to the shortcomings identified in the organizational and functional structure of the SBPC, there are problems in units within the MDE which are to function as the system's operational arms: CEPROBOL, SAT, SIVEX, SENAPI, IBMETRO, OBA, and INBOPIA. These units do not do their jobs properly because they lack human resources and usually do not work in coordination with one another, which leads to a duplication of activities in some cases, voids in priority areas in others, and a dispersion of resources owing to the differing perspectives and approaches of each of these organizations. By concentrating these agencies in the MDE, Act No. 2446 provides an opportunity for a careful analysis of their structures and functions, the reinforcement of their capacity for action, and an improvement in their articulation.
- 2.16 **Objective and proposed actions.** In order to improve the operations, coordination, and institutional structure of the units within the MDE which are to function as the SBPC's operational arms, particularly those involved in export promotion, institutional strengthening and reform actions are proposed.
- 2.17 In preparation for the release of the *first tranche*, the MDE will be required to submit a preliminary baseline assessment indicating to what extent CEPROBOL, SIVEX, SENAPI, SAT, IBMETRO, OBA, and INBOPIA fulfill their assigned duties. As a condition precedent to the *second tranche*, the MDE will be required to submit a proposal for improving the performance and coordination of the agencies analyzed during the preceding period based on refinements in the organization of their functional and institutional structures. Finally, a condition precedent to the *third tranche* will be the approval and implementation of the proposal submitted during the period covered by the second tranche, in accordance with the relevant standards and regulations. The proposal's implementation will be corroborated through the submission of a progress report that should provide, as a minimum, evidence that: (a) the organizational reengineering measures recommended in the proposal, including those focusing on decentralization, subcontracting, functional redefinitions, etc., in at least two of those bodies; (b) all the agencies and units covered in the proposal have initiated the administrative procedures required to obtain the budgetary resources and hire the technical staff they need to become institutionalized and effectively carry out their roles; and (c) the agencies have established formal coordinating units for activity scheduling, and these are meeting periodically.

2. Component II: Strengthening public policies in support of the production sector in order to take fuller advantage of export opportunities

- 2.18 **Background.** Bolivia has signed trade agreements with the Andean Community, the countries of the Southern Cone, the United States, the European Union, Chile, Mexico, and Cuba. As noted in paragraph 1.9, with the exception of its agreement with the Andean Community, it is not taking full advantage of the potential benefits afforded by these trade arrangements.
- 2.19 A number of factors have been identified as the main reasons for the underutilization of these agreements. These factors can be divided into two categories, with one being composed of those that influence export firms in particular sectors, and the other comprising those that have a cross-cutting effect, such as, respectively: (i) specific bottlenecks in clusters or production chains; and (ii) constraints on certain aspects of the regulatory framework designed to support foreign trade, together with the absence of a strategy targeting medium-sized export firms. There is also another factor that could pose a serious obstacle to export activity taking place under the ATPDEA. This risk is associated with shortcomings in the enforcement of intellectual property laws in Bolivia, since participation in the ATPDEA is subject to eligibility criteria which include the protection of intellectual property rights.
- 2.20 An opportunity therefore exists to support the implementation of actions that would help to: (i) consolidate and refine instruments for identifying and prioritizing bottlenecks in production chains at the sector and subnational (municipios and prefectures) levels; (ii) resolve specific problems that are interfering with foreign trade; (iii) reduce the risk of failure to meet the ATPDEA eligibility requirements referring to intellectual property rights so that Bolivia may continue to participate in that arrangement; and (iv) devise public policies for strengthening firms with export potential, with emphasis on medium-sized industrial enterprises.

a. Identification and prioritization of bottlenecks in production chains

- 2.21 **Problem.** Difficulties exist within a number of production chains that make it hard for them to engage in export activity. For example, a bottleneck exists in the wood and wood manufactures chain because there are not enough drying kilns, while the clothing production chain is hindered by the low quality and/or unavailability of domestically produced woolen fabrics and the resulting need to import them. Within the framework of the SBPC, Bolivia is making headway with the use of the ABCs as an efficient instrument for addressing this situation at a time when public and private funding constraints are quite severe. These agreements identify and prioritize the commitments made by both sectors regarding the action to be taken to eliminate the bottlenecks hampering each production chain. In other countries such as Colombia and Mexico, similar instruments for channeling public/private

commitments have had positive effects in terms of the development of competitiveness.

- 2.22 Although the use of competitiveness agreements to identify and prioritize such bottlenecks and to engage the private sector in resolving them is quite promising, an analysis of the ABCs that have been signed thus far in Bolivia shows that the agreements should specify clear-cut objectives and provide follow-up mechanisms in order to ensure that the parties to those agreements fulfill their commitments.
- 2.23 **Objective and actions.** In order to have an efficient mechanism for identifying and prioritizing bottlenecks in production chains that could take advantage of existing preferential agreements, particularly in the sectors with the greatest job-creation capacity, new ABCs need to be drawn up for chains with export potential, together with new ABCPs and ABCMs. As the decentralization process proceeds, ABCPs and ABCMs are expected to help generate an environment conducive to competitiveness at these subnational levels. These would be the first ABCMs and ABCPs to be signed. The agreements should cover, as a minimum, the following: (a) goals and objectives relating to the development of markets for the ABCs, and goals and objectives relating to the development of economic activity for the ABCMs and ABCPs; (b) action plans; and (c) benchmarks and follow-up mechanisms for monitoring these commitments, with the bodies or persons responsible for each one being specified. The ABCs should also provide for actions to mitigate any environmental or social impacts that the relevant production activities may have, as well as measures for utilizing the environmental advantages offered by the products in question (e.g., wood from certified forests and organic products).
- 2.24 The competitiveness agreements required for this loan will be signed according to the following timetable. The conditions precedent to disbursement will be: (i) for the *first tranche*, signature of three ABCMs, at least one of which must be with an economically active municipio (La Paz, El Alto, Cochabamba, or Santa Cruz); (ii) for the *second tranche*, signature of two ABCMs (in addition to the ones signed for the first tranche), two ABCs in production chains that are able to take advantage of preferential agreements (other than the quinoa and oilseed production chains), and two ABCPs, of which at least one must be with an economically active prefecture; and (iii) for the *third tranche*, signature of two ABCs (in addition to those signed for the second tranche) and submission of a progress report demonstrating that at least 15% of the commitments included in the ABCs and ABCPs have been fulfilled and that at least 30% of those in the ABCMs have been fulfilled, with performance being measured on the basis of the follow-up mechanism established for this purpose in the relevant agreements.

b. Resolution of bottlenecks associated with foreign trade regulations

- 2.25 **Problem.** Export firms need to import a large portion of the raw materials and intermediate goods they use in their production processes. In view of this state of affairs, since 1993 Bolivia has had a Temporary Clearance for Re-export Regime [Régimen de Admisión Temporal para Perfeccionamiento Activo] (RITEX) which authorizes registered firms to clear raw materials and intermediate goods through customs on a temporary basis while deferring payment of the three applicable taxes (the value added tax (VAT), the corresponding customs duty, and an excise tax). This regime was approved in Export Development and Tax Treatment Act No. 1489, for which successive regulations have been enacted. In 2000, Executive Order No. 25706 established the RITEX regulations on substantive, procedural, and administrative matters. Under these regulations, firms wishing to avail themselves of the RITEX regime must register with the Office of the Deputy Minister of Industry, Commerce and Exports and complete a series of administrative procedures. These procedures are fairly complex and entail high administration costs both for the State and for the regime's beneficiaries, and they have therefore discouraged firms from making use of RITEX.
- 2.26 The difficulties involved in using RITEX include: (i) at the time of registration, companies interested in making use of RITEX must indicate the technical coefficient for determining the quantity of raw materials and intermediate goods they need to make one unit of their export product. The determination of this coefficient is subject to the submission of an expert report whose preparation has proven to be costly and time-consuming; (ii) the 180-day temporary import period (which can be extended for an additional 180 days at the discretion of the administrative authority) has proven to be very short, especially for indirect exporters; (iii) the VAT drawback mechanism has turned out to be somewhat complicated and requires a long time to process, since a biministerial resolution must be issued to determine the size of the rebate in each individual case.
- 2.27 **Objective and actions.** In order to expedite the temporary clearance of inputs for use in export products, the program provides for the refinement of the RITEX system in order to improve access to this mechanism, lower its administration costs, streamline the regime's operation, and establish reporting procedures and means of ensuring transparency that will help the State monitor the regime properly. For the *first tranche*, improved regulations and guidelines for RITEX must have been approved by Executive Order. These regulations and guidelines should include at least the following elements: (i) a streamlined procedure for determining the technical coefficient in order to reduce reporting costs; (ii) the consolidation of the

allowable period for temporary imports into a single 360-day time allowance;⁶ (iii) computerization of RITEX operations for “RITEX firms” (direct exporters) and “RITEX suppliers” (indirect exporters) through the application of the Automated Customs System (SIDUNEA) of the National Customs Service; and (iv) establishment of clearly defined standards and operational guidelines for VAT refunds on RITEX exports in order to avoid the use of discretionary powers.

c. Strengthening the National Intellectual Property Service (SENAPI)

- 2.28 **Problem.** The eligibility requirements to be met by countries availing themselves of the ATPDEA and other trade agreements include the provision of a level of protection for intellectual property rights that is equal to or greater than the protection afforded under the Trade-Related Aspects of Intellectual Property Rights (TRIPs) provisions of the World Trade Organization (WTO). Bolivia’s laws are aligned with this framework and the country has created the National Intellectual Property Service (SENAPI) in an effort to enforce the relevant statutes. SENAPI’s institutional structure is weak, however, since it lacks a stable staff recruited under the civil service employment system and the organization’s geographical coverage is limited by the fact that it has offices and conducts activities only in La Paz. In addition, jurisdiction in the area of intellectual property offences is divided among SENAPI, the District Offices of the Public Prosecutor, and the National Customs Service. The lack of agreements among these three agencies regarding their roles in the area of intellectual property diminishes SENAPI’s ability to monitor and deal with violations of the existing regulations and standards.
- 2.29 **Objective and actions.** In order to reduce the risk that Bolivia might become ineligible for ATPDEA and other trade agreements, steps will be taken to strengthen SENAPI so that it can improve its enforcement of intellectual property laws. To this end, for the *first tranche* a SENAPI office will have to have been set up and be in operation in the Department of Cochabamba. For the *second tranche*, a SENAPI office will have to have been set up and be in operation in the Department of Santa Cruz, and agreements must have been signed with the District Offices of the Public Prosecutor for the departments of Cochabamba and Santa Cruz, such agreements to include measures to strengthen the enforcement of intellectual property laws. For the *third tranche*, a agreement must have been signed with the National Customs Service so that joint action may be taken to control entry into Bolivian territory of products that are in violation of its intellectual property and/or customs laws and regulations. USAID has a program in

⁶ The World Customs Organization (WCO) and, in particular, the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention) (Specific Annex G, Chapter 1), provide that the procedure and term for which merchandise may be temporarily cleared through customs shall be determined in accordance with the national laws of each State party to the Convention.

place to provide support and reinforcement to SENAPI and to help it enforce intellectual property laws which will provide funding for the activities outlined here.

d. Strengthening of public policies in order to galvanize firms with export potential

2.30 **Problem.** Bolivia has clearly defined policies to support large firms that export hydrocarbons, minerals and, to some extent, oilseeds, but it lacks public policies to backstop medium-sized companies, especially potential exporters that produce nontraditional manufactures. At this point, because of the problems that this segment of medium-sized manufacturing companies is having in sustaining its export activities and because of the absence of policies for addressing those problems, the country is failing to take advantage of an enormous export potential. For example, between 1995 and 2002, over 400 medium-sized firms were each selling between US\$100,000 and US\$10 million worth of exports per annum over a period of at least three years, but they were unable to maintain this export activity over the longer run. In addition, there were over 1,300 medium-sized companies that succeeded in selling varying amounts of exports over a period of one or two years, but they were not able to consolidate their positions as exporters either. If they were to succeed in doing so, these firms could provide steady jobs for more than 50,000 workers and would, as a group, add around US\$800 million per year to the country's exports (a figure equivalent to twice as much as Bolivia's trade deficit). The absence of policies to backstop this segment of medium-sized business enterprises is largely attributable to a lack of familiarity with this segment's profile and with the problems it faces.

2.31 **Objective and actions.** The following measures and actions will be required in order to generate a strategy and public policies to strengthen and galvanize firms with export potential, especially medium-sized manufacturing enterprises, and to assist them in obtaining direct or indirect access to markets on which they can benefit from trade preferences: (i) for the *first tranche*, submission of a report profiling the most representative segment of export firms (based on export values and number of establishments) based on their total exports and total length of export activity (in years) during the period 1996-2002; (ii) for the *second tranche*, submission of a public policy proposal for backstopping this segment which includes at least the following: (a) identification of the main bottlenecks and growth constraints that are limiting this segment and its exports; (b) a specific action proposal to reduce the bottlenecks and constraints identified; and (c) the expected outcomes; and (iii) for the *third tranche*, the implementation of the proposal prepared for the preceding tranche. Evidence of the implementation of this proposal is to be provided in a progress report which must, as a basic minimum, demonstrate that at least two policies or measures have been defined and are being implemented to ease the bottlenecks that are restricting the growth and export activity of medium-sized companies.

D. Cost and financing

- 2.32 The program will be financed with a US\$37 million sector loan which will be focused on the reforms that are listed in the policy matrix (see Annex I) and described in the earlier sections on project components. It is proposed that this sector loan should be disbursed in three tranches, as follows: (i) ***first tranche***: US\$15 million; (ii) ***second tranche***: US\$12 million; and (iii) ***third tranche***: US\$10 million. Prior to each disbursement, the conditions set forth in the policy matrix for each tranche will have to be fulfilled.
- 2.33 The scale of the program has been determined on the basis of the size of the Bolivian economy, its present fiscal position, the types of reforms to be introduced as conditions precedent to the disbursement of loan resources, and the availability of resources in the Fund for Special Operations (FSO) for Bolivia. The fact that larger percentages of the loan are to be disbursed in the earlier tranches is a reflection of the scale, number, and degree of effort involved in the government's performance of the actions called for at those stages, especially in view of the current economic, political, and social situation.

III. PROGRAM IMPLEMENTATION

A. Borrower and executing agency

- 3.1 The borrower will be the Republic of Bolivia. The Ministry for Economic Development (MDE) will serve as the executing agency and will be responsible for the fulfillment of the conditions set out in the policy matrix for the program. To this end, the MDE will coordinate the actions taken by the units reporting to it through the Office of the Deputy Minister of Industry, Commerce, and Exports and the Productivity and Competitiveness Unit (UPC). The MDE will also coordinate its work with the Ministry of Foreign Affairs and Worship (MRREE) to fulfill the conditions that fall within the purview of that ministry.

B. Project implementation and management

- 3.2 As the executing agency, the MDE will be responsible for: (i) supervising the fulfillment of the conditions established by the program; (ii) preparing progress reports for submission to the Bank; (iii) submitting applications for the release of tranches and disbursements, together with the documentation required to verify that the applicable conditions have been met; and (iv) preparing and maintaining the accounting and operational records for the program.

C. Procurement of goods and services

- 3.3 The loan proceeds may be used to finance the aggregate cost, in foreign exchange, of eligible imports from IDB member countries; the Bank's procedures for sector loans (document GN-2001-2) will apply. These procedures do not require international competitive bidding. The funds will be disbursed at the request of the borrower upon submission of evidence that all contractual conditions have been met to the Bank's satisfaction.

D. Accounting and auditing

- 3.4 The loan contract will specify the following provisions with respect to externally audited accounting and financial records:
- a. The borrower, through the executing agency, will be responsible for keeping separate accounting and financial records as well as supporting documentation regarding the use of the loan funds; for preparing disbursement requests and submitting them to the Bank; and for ensuring that these documents are available for inspection by the Bank and/or external auditors should they decide to do so;
 - b. The borrower, through the executing agency, is to maintain specific, separate bank accounts for handling the loan funds and must submit evidence to the Bank

that such accounts have been opened as a prerequisite for the first disbursement;
and;

- c. The Bank reserves the right to request the borrower to furnish financial reports on the use of the loan proceeds as verified by an independent auditing firm which has been previously accepted by the Bank. The auditing firm is to be engaged in accordance with Bank procedures and is to prepare the reports in compliance with applicable Bank standards and the terms of reference agreed upon with the Bank.

E. Implementation period and disbursement timetable

- 3.5 This operation will disburse the loan in three tranches over a period of at least 18 months starting from the date upon which the loan contract enters into effect. Disbursement of the first tranche is expected to occur following the signature of the loan contract in December 2003. It should be noted that the actions corresponding to the first tranche are well advanced. For the second and third tranches, the executing agency will be required to submit a report to the Bank which demonstrates that the conditions precedent to each tranche have been fulfilled 45 days prior to the planned disbursement date. The Bolivian authorities have stated their intention to complete fulfillment of the conditions precedent to the second and third disbursements in such a way as to obtain these disbursements in the second quarter of 2004 and third quarter of 2005, respectively.

F. Inspection and supervision

- 3.6 The Bank will establish inspection procedures as it sees fit to ensure satisfactory execution of this sector loan. To that end, the borrower will cooperate fully in furnishing any assistance and information that may be required.

G. Monitoring and evaluation

- 3.7 Progress in fulfilling the established conditions will be monitored by means of the semiannual reports which the MDE is to submit to the Bank. These reports will provide detailed information on the progress made in implementing the policy measures required for the disbursement of each tranche. In addition, when requesting the release of loan funds, the MDE must submit a special report to the Bank together with corroborating documentation that provides evidence of fulfillment of the relevant conditions in accordance with the matrix of means of verification as agreed upon with the Bank in advance. The project team will evaluate this information in order to determine whether the conditions have been fulfilled and will prepare the relevant tranche release reports for the Bank's Board of Executive Directors. At the end of the operation, the Bank will prepare a project completion report in which it provides a detailed account of the loan operation's execution and the lesson learned from this experience.

- 3.8 In addition to monitoring fulfillment of the established conditions, the expected outcomes of the proposed actions, which are listed in Annex II and whose benefits are outlined in paragraphs 4.5 through 4.7, may be monitored and evaluated through an examination of progress toward the benchmarks developed in conjunction with the borrower for this purpose. Considering how complex it is to determine what long-term impacts might be attributed to activities conducted by a single program (especially in the area of competitiveness, which is influenced by a wide range of variables), the project team has concluded that it is appropriate to target given outcomes up to two years after the end of the program. The program's technical files contain the relevant information on the indicators and baselines for the benchmarks, as well as on the assignment of personnel to be responsible for compiling data and monitoring progress in this respect.
- 3.9 The borrower has indicated its willingness to maintain the necessary technical files to permit suitable monitoring of indicators and to provide technical collaboration if an ex post evaluation is going to be conducted by the IDB Office of Evaluation and Oversight as per the ex post evaluation policy approved by the Board of Executive Directors on 15 October 2003 (document GN-2254-5). The MDE has declined, however, to carry out an ex post evaluation at the borrower's expense.

H. Sector policy letter

- 3.10 The Bank has agreed with the Government of Bolivia on the macroeconomic and sector policies outlined in the sector policy letter (see Annex III) sent by the government to the Bank. This letter describes the main components of the government's strategy and policies that are being implemented in the area of competitiveness and its commitment to implementing the reforms and activities agreed upon with the Bank.

IV. VIABILITY, RISKS AND BENEFITS

A. Viability and risks

- 4.1 The complex sociopolitical situation in Bolivia at the present time poses an overall risk for the program and, as such, has been extensively examined and integrated into the program's design. The fragility of public policy-making and implementation in the current political context, in particular, together with the constraints in terms of the fulfillment of conditions that this might entail, have been a decisive factor in the determination of what actions are to be required. Hence, each of the conditions set out in the policy matrix (see Annex I) has been formulated in such a way as to take the obstacles that could delay or block its fulfillment into consideration.
- 4.2 Two main strategies have been used to mitigate this overall risk. First, decision-making power with respect to the conditions' fulfillment is centralized in the Executive Branch and, in virtually every case, the agencies or units responsible for implementing the required measures report to the program's executing agency. These factors significantly reduce the negative impact that the fragmentation of Congress or some other type of political dispute might have on the fulfillment of the stated conditions. Second, each of the conditions has been discussed at length with the main stakeholders and at all relevant levels in the organizational structure. The commitment expressed during the design stage has been reflected in the considerable progress made toward fulfilling the conditions required for the first disbursement.
- 4.3 Another factor that reduces the risk posed by this political fragility is the widespread recognition of the pressing need for the production sector to boost its competitiveness and productivity so that economic growth can resume. This fact is evident in the new version of the EBRP. This document, which was presented to international cooperation agencies on 8 and 9 October 2003 in Paris, places emphasis on the development of the production sector and on its role as a vector for poverty reduction and increased social equity. More recently, in his inaugural address, the new President of Bolivia highlighted the importance of bolstering foreign trade in order to make greater use of existing trade agreements and his commitment to furthering the necessary actions to achieve this objective.
- 4.4 Bolivia's currently large fiscal deficit poses a risk in that the agencies responsible for meeting the proposed conditions may be hampered by budgetary constraints. A number of factors mitigate this risk, however. First, the cost of fulfilling these conditions is fairly low. Second, as mentioned earlier, an investment loan for the SPBC is being readied (BO-0220) in tandem with this operation which provides for activities that will complement this program. Even though recent events in Bolivia have caused a slight delay in the program's preparation, it should be approved in

the first quarter for 2004. This would not impede the fulfillment of the conditions precedent to the first tranche, since the work required for their performance is well advanced. Third, since the MDE is currently presiding over the economic cabinet, there is a convergence of interest on the part of the Ministry of Finance and the MDE to fulfill the program's conditions.

B. Expected benefits and outcomes

- 4.5 As noted in the section on the program's objectives, this loan operation is aimed at strengthening institutions and public policies in order to support productivity and competitiveness in an effort to create an environment conducive to the growth of the production sector, and particularly firms with export potential. Although it is hoped that this program will benefit the production sector, because it is a sector program its benefits will be generated indirectly over the medium and long terms. The operation's direct benefits will be seen in two main areas: (i) public institutions and policy tools that are more effective in meeting the production sector's needs; and (ii) public policies for the production sector that help remove the obstacles that hinder export activity.
- 4.6 As noted earlier, Annex II sets forth the intended outcomes of the proposed actions in detail, together with the corresponding benchmarks. The relevant baselines and data collection methods are covered in the program's technical files. The expected outcomes of the actions to be promoted during the **first component** are: (a) the SBPC will have a leadership structure that ensures it an influential position and the ability to rally the support and interest of stakeholders, along with effective, transparent mechanisms through which the private sector can play a central role in promoting productivity and competitiveness through the coordination and formulation of public policies via the UPC and through the effective implementation of such policies via the concerted action of its operational arms; (b) the export promotion activities and trade negotiations conducted by the MDE and the MRREE will be mutually complementary and oriented toward the same objectives and strategic direction; and (c) the agencies and units that report to the MDE will be working in an effective, coordinated manner to provide the support needed by the export sector based on the country's productivity and competitiveness agenda.
- 4.7 The intended outcomes of the actions included in the **second component** are: (a) the system for identifying and prioritizing bottlenecks in the sector's operations (production chains) and at subnational levels (municipios and prefectures) will be functioning effectively in helping to resolve those situations; (b) foreign trade operations will be facilitated by improvements in the mechanism for temporary clearance through customs of inputs for use in producing export products; (c) the formulation, implementation, and enforcement of intellectual property regulations will be more effective and SENAPI will have the necessary institutional capacity and stable technical staff to provide continuity in its management, thereby reducing

the risk that the country might become ineligible for the ATPDEA, GSP and other trade agreements; and (d) public policies aimed at strengthening and galvanizing medium-sized firms with export potential will be in place.

C. Environmental and social impacts

- 4.8 *Environmental impacts and proposed measures.* Because this is a sector program, the proposed operation will have no direct environmental impacts. It should be emphasized, however, that this operation defines competitiveness in the broad sense of the term and therefore incorporates the concepts of socially inclusive and environmentally sustainable development. Accordingly, a two-pronged environmental strategy is to be included in the ABCs (see paragraph 2.23). On the one hand, the agreements will include steps to mitigate any possible negative impacts that the relevant production processes might have. On the other, these will promote the development of markets for environmentally certified products and processes, such as wood from certified forests. Using this approach, environmental protection in Bolivia could become a competitive advantage that would enable it to place products incorporating more value added on the market.
- 4.9 The CESI did not find that any special measures or evaluations were required. It did recommend that the program's environmental strategy be clarified, however, and that the promotion of environmentally certified products or processes be incorporated into that strategy. The CESI reviewed the loan proposal for this operation at its meeting 43-03, held on 21 November 2003, and found that those recommendations had been suitably integrated into the document (see paragraphs 2.23 and 4.8).
- 4.10 *Social impacts and PTI/SEQ classification.* Although this operation does not qualify as a poverty-targeted investment (PTI) or as a social equity enhancing project (SEQ), as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704), its expected outcomes are likely to have positive medium- and long-term social impacts. In particular, it is foreseen that the strengthening of the SBPC, its institutions, and public policies in support of exports will boost employment in the export segment of the production sector and thus lead to an increase in that sector's earnings. In addition, access to international markets can be expected to have a positive effect on the quality of the labor environment over the long term in sectors such as textiles and clothing, for example, where the requirements established for exports to North American (ATPDEA) and European (GSP) markets include standards relating to employment conditions.

BOLIVIA
SECTOR PROGRAM FOR STRENGTHENING INSTITUTIONS AND PUBLIC POLICIES
TO SUPPORT PRODUCTIVITY AND COMPETITIVENESS (BO-0219)
POLICY MATRIX

Problem	Objective	First Tranche	Second Tranche	Third Tranche
Fiscal and financial instability creates an unfavorable environment for the development of competitiveness.	To curb the growth of the fiscal deficit and promote macroeconomic stability.	The macroeconomic policy framework is consistent with the guidelines established in the sector policy letter.	The macroeconomic policy framework continues to be consistent with the guidelines established in the sector policy letter.	The macroeconomic policy framework continues to be consistent with the guidelines established in the sector policy letter.
I. Strengthening public institutions in order to support productivity and competitiveness within the framework of the SBPC				
Weaknesses in the SBPC's structure in the area of leadership and its ability to rally the support and interest of stakeholders, mechanisms for private-sector participation, and the articulation of the institutions belonging to the system.	To strengthen the institutional structure of the SBPC so that it can play its proper role in promoting productivity and competitiveness in the country.	1. Submission by the UPC of a proposal for strengthening the organizational and functional structure of the SBPC to the MDE and the Ministry for Campesino and Agricultural Affairs; this proposal is to include, as a minimum, an implementation schedule and actions to strengthen: (a) its ability to rally the support and interest of stakeholders through effective leadership; (b) mechanisms for private-sector participation; and	9. Approval, by the borrower, of the consensus-based proposal within the framework of the CIPC for strengthening the SBPC. The proposal should be similar in substance to the version submitted for the preceding tranche.	17. Implementation of the proposal for strengthening the SBPC as approved during the disbursement period covering the second tranche. Fulfillment of this condition is to be corroborated through the submission of a progress report by the UPC indicating what advances have been made. ¹

¹ This report should provide corroboration, as a minimum, of progress in the following areas: (a) periodic meetings of the CBPC or of an equivalent first-tier organ of the SBPC; (b) periodic meetings of the CIPC or of an equivalent second-tier organ of the SBPC; (c) operational status of the CDCs within the SBPC network in at least four departments; and (d) events organized by the UPC to communicate and disseminate the SBPC's advances to civil society and the business sector corresponding to priority production chains.

Problem	Objective	First Tranche	Second Tranche	Third Tranche
Lack of articulation and coordination between the two key ministries in terms of support for export activities in the production sector: the MDE and the MRREE.	To improve the effectiveness of export promotion activities and international trade negotiations.	<p>(c) the UPC's role as technical secretariat and coordinator of the SBPC's organizational arms.</p> <p>2. Approval by the MDE of the Administrative Organizational System for the UCP as determined by the National Public Administration Service.</p> <p>3. Submission by the MDE of a management between the MDE and the MRREE proposing, as a minimum, measures for:</p> <p>(a) strengthening the external foreign trade network of commercial attachés, embassies and consulates; and</p> <p>(b) promoting articulation and coordination between public-sector institutions and between these and the private sector to undertake international trade negotiations</p>	<p>10. Adoption by the MDE of the budgetary provisions required to cover the items in the UPC's SOA that have been approved.</p> <p>11. Signing of a management agreement between the MDE and the MRREE whose terms are similar in substance to the draft version submitted for the preceding tranche.</p>	<p>18. Hiring, in accordance with the Public Service Statute, of minimum technical staff required for the UPC to function properly.</p> <p>19. Implementation of the management agreement signed during the period corresponding to the preceding tranche. Evidence of implementation is to be provided in a progress report prepared by the MDE.²</p>
The operational arms for productivity, competitiveness, and export promotion of the SBPC which report to	To improve the operations, coordination, and institutional structure of the components of the	<p>4. Submission by the MDE of a preliminary baseline assessment of the extent to which the following agencies of the MDE, which are to be the operational</p>	<p>12. Submission by the MDE of a proposal for coordinating and improving the efficiency of the following SBPC agencies: CEPROBOL, SIVEX, SENAPI,</p>	<p>20. Approval, in accordance with the relevant standards and regulations, and implementation of the proposal submitted during the period covered by the</p>

² This report should provide corroboration, as a minimum, of the following: (a) the existence of a formally established forum (which is to have met periodically) for the staff of the MDE, the MRREE, and private-sector entrepreneurs that will provide an opportunity for an in-depth analysis and formulation of policy with a view to helping Bolivia strengthen its position in trade negotiations; (b) there is at least one full-time trade promotion specialist working in each of Bolivia's two most important markets; and (c) the procedure used for the selection of commercial attachés is based on technical criteria.

Problem	Objective	First Tranche	Second Tranche	Third Tranche
the MDE (CEPROBOL, SIVEX, SENAPI, SAT, IBMETRO, OBA and INBOPIA) are not performing their functions satisfactorily and are not coordinated with each other.	SBPC working in the area of foreign trade which report to the MDE (CEPROBOL, SIVEX, SENAPI, SAT, IBMETRO, OBA and INBOPIA).	arms of SBPC, are performing their functions (CEPROBOL, SIVEX, SENAPI, SAT, IBMETRO, OBA and INBOPIA).	SAT, IBMETRO, OBA and INBOPIA.	preceding tranche. This is to be corroborated through the submission of a progress report by the MDE. ³
II. Reinforcement of public policies for the production sector aimed at taking greater advantage of export opportunities				
Insufficient utilization of the preferential agreements for which Bolivia qualifies in export markets, especially the Andean Trade Promotion and Drug Eradication Act (ATPDEA) and the European Union's Generalized System of Preferences (SPG).	To have an efficient mechanism for identifying and prioritizing bottlenecks in production chains that could be taking advantage of preferential agreements, particularly in sectors with a strong job-creation potential.	5. Signature of the first three ABCMs,* at least one of which must be with an economically active municipio.	13. Signature of: (a) two ABCMs* (in addition to those signed during the preceding tranche) which have the same structure as the preceding agreements; (b) two ABCs** for production chains that can take advantage of preferential agreements (other than the quinoa and oilseed chains); and (c) 2 ABCPs,* of which at least one must be with an economically active department.	21. Signature of two additional ABCs* with production chains which have the same structure as the preceding agreements. 22. Implementation of the ABCs, ABCMs, and ABCPs signed during earlier tranches. Implementation is to be corroborated in a progress report prepared by the UPC which indicates a delivery performance percentage of no less than 15% for ABCs and ABCPs and 30% for ABCMs. These percentages are to be measured using the follow-up mechanism designed by the UPC for this purpose.

³ This report should provide corroboration, as a minimum, of the following: (a) that the operational arms of the MDE identified during earlier tranches have initiated the organizational reengineering actions recommended in the proposal, such as decentralization, subcontracting, functional redefinitions, etc., in at least two of these bodies; (b) that all the agencies covered in the proposal and approved in SBPC regulations undertake the administrative process to obtain budget funds and sufficient technical staff to ensure their institutionalization and proper performance; and (c) that these agencies have established formal coordinating units to schedule their activities, and that they are meeting periodically.

* The ABCs, ABCMs, and ABCPs should include, as a minimum, the following: (a) goals and objectives of the agreements; (b) plan of action; and (c) mechanisms and benchmarks for use in monitoring fulfillment of commitments, along with the identification of the bodies or persons responsible for each one. In the case of the ABCs, item (a) should refer to market-development goals and objectives.

** ABCs may be referred to as either production agreements or pacts. These agreements or pacts should include a section on measures for addressing and mitigating social and environmental impacts.

Problem	Objective	First Tranche	Second Tranche	Third Tranche
	<p>To facilitate temporary clearance of inputs to be used in manufacturing export products.</p> <p>To reduce the risk that the country might become ineligible for the ATPDEA by strengthening the SENAPI so that it can properly promote and enforce the protection of intellectual property rights.</p> <p>To formulate a strategy and public policies for strengthening and galvanizing firms with</p>	<p>6. Approval, by Executive Order, of the amended regulations and guidelines for RITEX, which should include, as a minimum:</p> <ul style="list-style-type: none"> (a) a streamlined procedure for determining the technical coefficient; (b) consolidation of the time allowance for temporary imports into a single 360-day period; (c) computerization of RITEX operations; (d) establishment of clearly defined standards and operational guidelines for VAT refunds on RITEX exports. <p>7. Establishment and start-up of a SENAPI office in an economically important department (Cochabamba).</p> <p>8. Submission by the MDE of a report profiling the most representative segment of export firms (based on export values and</p>	<p>14. Establishment and start-up of a SENAPI office in another economically important department (Santa Cruz).</p> <p>15. Signature of agreements with the Office of the Public Prosecutor in economically important departments (Cochabamba and Santa Cruz) which provide for means of tightening up enforcement of intellectual property laws.</p> <p>16. Submission by the MDE of a public policy proposal for backstopping this segment that includes at least the following:</p>	<p>23. Signature of an agreement between SENAPI and the National Customs Service that includes channels for joint action in tightening up enforcement procedures for denying entry to products that are in violation of intellectual property laws and/or customs legislation.</p> <p>24. Implementation of the proposal prepared during the preceding tranche. Implementation is to be corroborated in a progress report</p>

Problem	Objective	First Tranche	Second Tranche	Third Tranche
	export potential (especially medium-sized companies in the manufacturing sector) by facilitating access to markets where Bolivia enjoys trade preferences.	number of establishments) and detailing total exports and total length of export activity (in years) during the period 1996-2002.	<ul style="list-style-type: none"> (a) identification of the main bottlenecks and growth constraints that are limiting this segment and its exports; (b) a specific action proposal; and (c) the expected outcomes. 	prepared by the MDE which must, as a basic minimum, demonstrate that at least two policies or measures have been defined and are being implemented to ease the bottlenecks that are restricting the growth and export activity of medium-sized companies.

BOLIVIA
SECTOR PROGRAM FOR STRENGTHENING INSTITUTIONS AND PUBLIC POLICIES
TO SUPPORT PRODUCTIVITY AND COMPETITIVENESS (BO-0219)
MATRIX OF INDICATORS¹

Areas of Action		Proposed Measures		Expected Outcomes and Benchmarks
Problem	Cause	Objective	Policy outputs (at end of program)	Outcome of measures proposed by the program (two years after the last disbursement)
I. Strengthening public institutions in order to support productivity and competitiveness within the framework of the SBPC				
(a) Strengthening of the SBPC institutional structure				
Weaknesses in the SBPC's structure in terms of leadership and its ability to rally the support and interest of stakeholders, mechanisms for private-sector participation, and the articulation of the institutions belonging to the system.	Discrepancy between the government's urgent need to solve short-term problems and the long-range process involved in building a strategic platform for competitiveness such as the SBPC.	To strengthen the institutional structure of the SBPC so that it can play its proper role in promoting productivity and competitiveness in the country.	<ul style="list-style-type: none"> • Submission by the UPC of a proposal for strengthening the organizational and functional structure of the SBPC to the MDE and the Ministry for Campesino and Agricultural Affairs and approval and implementation in accordance with the loan condition. • Approval by the MDE of the SOA, corroborated by the SNAP for the UPC, and adoption by the MDE of the budgetary provisions required to cover the approved items. • Recruitment of sufficient personnel under the terms of the Civil Service Employment Statute to give the UPC at least the minimum technical staff strength it needs to do its job properly. 	<p>Outcome: The SBPC will have a leadership structure that ensures its ability to rally the support and interest of stakeholders, along with effective, transparent mechanisms to allow the private sector to play a central role in promoting productivity and competitiveness through the coordination and formulation of public policies via the UPC and through the effective implementation of such policies via the concerted action of its operational arms.</p> <p>Benchmarks:</p> <ol style="list-style-type: none"> At least 50% of the public and private stakeholders participating in the SBPC regard it as the central agency for public policy-making and implementation in the field of competitiveness. At least 50% of the public and private stakeholders participating in the SBPC feel that it has improved upon its performance in the past two years (with the various units of the system being differentiated). At least 50% of the public and private stakeholders participating in the SBPC who are familiar with the work of the UPC think that its performance as the technical secretariat has been "good".

¹ The procedures used to define the indicators and benchmarks, baselines, and means of verification are described in the methodological matrix, which is available in the program's technical files.

Areas of Action		Proposed Measures		Expected Outcomes and Benchmarks
Problem	Cause	Objective	Policy outputs (at end of program)	Outcome of measures proposed by the program (two years after the last disbursement)
				<p>d. Based on the proposal for strengthening the SBPC, the first-tier organ (equivalent to the CBPC) and the second-tier organ (equivalent to the CIPC) are meeting with the frequency, attendance and private participation called for in the applicable regulations. The minutes of the meeting bear witness to the follow-up of measures decided upon at the preceding meeting, and at least 50% of these measures are being implemented at the level of the first-tier organ and 30% at the second.</p> <p>e. At least 80% of the board meetings convened each year by the CDCs are attended by at least 80% of the directors sitting on those boards.</p>
b) Strengthening of mechanisms for coordination of the MDE and the MRREE				
Lack of articulation and coordination between the two key ministries (the MDE and the MRREE) in terms of support for export activities in the production sector.	Absence of systematic communication and coordination mechanisms between the MDE and the MRREE.	To increase the effectiveness of export promotion activities and international trade negotiations.	<p>(a) Presentation and signature of an agreement between the MDE and the MRREE providing for, as a minimum, measures for: (a) strengthening the external foreign trade network of commercial attachés, embassies and consulates; and (b) promoting articulation and coordination between public agencies and between these and the private sector to undertake international trade negotiations.</p> <ul style="list-style-type: none"> Implementation of the agreement in accordance with the requirements of the relevant condition. 	<p>Outcome: The export promotion activities and trade negotiations conducted by the MDE and the MRREE will be mutually complementary and oriented toward the same objective and strategic direction.</p> <p>Benchmarks:</p> <p>a. Representatives of the MDE and the MRREE hold at least three trade policy coordination meetings per year and at least 80% of the participants in those meetings are from the first and second tiers in the hierarchy.</p> <p>b. At least 70% of the major public and private agents in the field of foreign trade feel that the government's export promotion and trade negotiation efforts have improved and merit a ranking of "good" or "very good".</p> <p>c. At least 60% of the directors of the main chambers of commerce, business associations, and trade unions, as well as public-sector officials, think that the work of the MDE and the MRREE reflects a shared perspective and common objective.</p> <p>d. The geographical position of the network of commercial attachés matches the export promotion strategy, and 80% of the countries classified as "strategic" are served by a government staff member or consultant.</p>

Areas of Action		Proposed Measures		Expected Outcomes and Benchmarks
Problem	Cause	Objective	Policy outputs (at end of program)	Outcome of measures proposed by the program (two years after the last disbursement)
(c) Strengthening key SBPC organizations within the MDE				
The operational arms that report to the MDE ² and export promotion agencies do not perform their functions satisfactorily and are not coordinated with one another.	Too few resources and technical personnel are assigned to the MDE agencies responsible for promoting productivity and competitiveness.	To improve the operation, coordination, and institutional structure of the agencies to function as SBPC's operational arms and working in the field of foreign trade.	<ul style="list-style-type: none"> • Submission of a preliminary analysis of the delivery performance of the agencies to function as SBPC's operational arms, and approval of a proposal for helping them to become more efficient and coordinate their efforts in line with the relevant condition. • All the agencies covered in the proposal and approved under the regulations have initiated the administrative procedures required to obtain the budgetary resources and sufficient technical staff to ensure their institutionalization and proper performance. 	<p>Outcome: The key agencies in the field of competitiveness, which are to function as the SBPC's operational arms, meet the support needs of the production sector on a coordinated basis in line with the country's competitiveness and productivity agenda.</p> <p>Benchmarks:</p> <ol style="list-style-type: none"> Representatives of MDE and representatives of, as a minimum, CEPROBOL, SENAPI, SAT and UPC meet at least three times per year; at least 80% of the representatives attending these meetings are of the first or second tier in the hierarchy. At least 40% of CEPROBOL, SIVEX, SENAPI, SAT IBMETRO, OBA and INBOPIA users think that these agencies' response to their support needs has improved. As the technical secretariat of the SBPC, the UPC finds that the operational arms have improved their coordination since the last disbursement and that their work is aligned with the country's productivity and competitiveness agenda.

² CEPROBOL, SIVEX, SENAPI, SAT IBMETRO, OBA and INBOPIA

Areas of Action		Proposed Measures		Expected Outcomes and Benchmarks
Problem	Cause	Objective	Policy outputs (at end of program)	Outcome of measures proposed by the program (two years after the last disbursement)
II. Reinforcement of public policies for the production sector aimed at taking greater advantage of export opportunities				
Insufficient utilization of the preferential agreements for which Bolivia qualifies in export markets, especially the Andean Trade Promotion and Drug Eradication Act (ATPDEA) and the European Union's Generalized System of Preferences (SPG).	(a) Prioritization of bottlenecks in production chains			
	Lack of an effective mechanism for identifying, prioritizing, and resolving bottlenecks to pave the way for the utilization of marketing opportunities.	To have an efficient mechanism for identifying and prioritizing bottlenecks in production chains that could be taking advantage of preferential agreements, particularly in sectors with a strong job-creation potential.	<ul style="list-style-type: none"> Signature of four new ABCs in chains having export potential. Signature of two ABCPs and five ABCMs. Delivery performance percentage of no less than 15% for ABCs and ABCPs and 30% for ABCMs. 	<p>Outcome: The system for identifying and prioritizing bottlenecks in the sector's operations (production chains) and at subnational levels (municipios and prefectures) will be functioning effectively in helping to resolve those situations.</p> <p>Benchmarks:</p> <ol style="list-style-type: none"> At least 50% of the members (links) of the production chain believe that the commitments made in the relevant ABC have helped to resolve the bottlenecks in their link of the chain. At least 75% of the signatories feel that the commitments made in the ABCM or ABCP have helped to remove the critical bottlenecks in their region. Existence of a formally constituted mechanism for the review of agreements and progress in the fulfillment of commitments in which at least 66% of the representatives responsible for delivering on those commitments are in attendance. An upward trend in the volume of production and/or exports by firms belonging to chains that have signed ABCs, as measured in relation to the objectives established in the corresponding agreements. The coefficient for adherence to the timetable for the ABCs' implementation has been at least 60%, while the figures for the ABCMs and ABCPs are at least 80%.
	(b) Resolving bottlenecks associated with foreign trade regulations			
	Operation of the RITEX is unsatisfactory.	To facilitate temporary customs clearance for inputs to be used in the manufacture of exports.	<ul style="list-style-type: none"> Refinement of the RITEX based on the detailed requirements set out in the corresponding condition. 	<p>Outcome: Foreign trade operations will be facilitated by improvements in the mechanism for temporary clearance through customs of inputs for use in producing export products.</p> <p>Benchmarks:</p> <ol style="list-style-type: none"> An increase of at least 10% in the number of firms registered with RITEX and in the use of the system. An increase of at least 10% in the volume of RITEX exports. At least 50% of RITEX users feel that the reform of the system has facilitated their export production activities.

Areas of Action		Proposed Measures		Expected Outcomes and Benchmarks
Problem	Cause	Objective	Policy outputs (at end of program)	Outcome of measures proposed by the program (two years after the last disbursement)
	(c) Strengthening SENAPI			
	<p>a. SENAPI's institutional structure is weak in terms of both resources and personnel; and</p> <p>b. Responsibilities for dealing with intellectual property infractions are apportioned among the SENAPI, Offices of the Public Prosecutor, and customs authorities.</p>	<p>To reduce the risk that Bolivia might be declared ineligible for ATPDEA benefits, by strengthening the SENAPI so that it can promote and regulate the use of intellectual property rights.</p>	<ul style="list-style-type: none"> Establishment of SENAPI offices in the departments of Cochabamba and Santa Cruz. Signature of agreements with the Office of the Public Prosecutor in the departments of Cochabamba and Santa Cruz to undertake coordinated action against infractions of intellectual property laws. Signature of an agreement with the National Customs Service to undertake joint action in tightening up enforcement procedures for denying entry to products that are in violation of intellectual property laws and/or customs legislation. 	<p>Outcome: The formulation, implementation, and application of intellectual property laws will be more effective, and the SENAPI will have the institutional capacity and a sufficiently stable staffing table to ensure the continuity of its operations and thus reduce the risk of being declared ineligible for the ATPDEA, SPG, and other trade agreements.</p> <p>Benchmarks:</p> <ul style="list-style-type: none"> a. An upward trend in intellectual property suits. b. A rising trend in the number of complaints concerning violations of intellectual property laws received by SENAPI. c. At least 8% of complaints regarding infractions originate in Cochabamba or Santa Cruz. d. An increase of at least 5% in patent applications. e. An increase of at least 20% in trademark applications.

Areas of Action		Proposed Measures		Expected Outcomes and Benchmarks
Problem	Cause	Objective	Policy outputs (at end of program)	Outcome of measures proposed by the program (two years after the last disbursement)
	(d) Strengthening of public policy to galvanize firms with export potential			
	Absence of public policies to support firms with export potential, especially in the case of medium-sized companies with significant job-creating capacity, the majority of which are manufacturing firms.	Formulate a strategy and public policy for strengthening and galvanizing potential exporters, especially medium-sized firms in the manufacturing industry, in order to help provide them with access to markets where they are eligible for trade preferences.	<ul style="list-style-type: none"> • Submission of a diagnostic study of the export sector and a public policy proposal for backstopping this segment that includes at least the following: (a) identification of the main bottlenecks and constraints that are limiting this segment's growth and its exports; (b) a specific action proposal; and (c) the expected outcomes. • Implementation of the proposal in accordance with the guidelines for the relevant condition. 	<p>Outcome: Medium-sized firms with export potential identified in the proposal will benefit from public policies designed to strengthen and stimulate such business ventures.</p> <p>Benchmarks:</p> <ol style="list-style-type: none"> At least 50% of the activities listed in the policy implementation timetable have been carried out. At least 50% of the entrepreneurs in medium-sized export companies say that they have seen a "considerable" or "positive" improvement in the government's support activities specifically targeting that segment of the business community. At least 20% of the firms targeted by these public policies have witnessed an upward trend in their export volumes.