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THE INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

BOLIVIA

Initiative for the Heavily Indebted Poor Countries (HIPC) Completion Point Document

Prepared by the Staffs of the Fund and the IDA[1]
In consultation with the Staff of the Inter-American Development Bank

September 4, 1998

I. Introduction

1. **In September 1997, the Executive Boards of the Fund and IDA decided that Bolivia was eligible for assistance under the Initiative for Heavily Indebted Poor Countries (HIPC) that would reduce the ratio of the net present value (NPV) of debt to exports from 259 percent projected for end-1997 to 225 percent (plus or minus 10 percentage points).**[2] It was agreed that Bolivia's external creditors will provide US$448 million of debt relief in NPV terms (a reduction of about 13 percent in Bolivia's external public and publicly guaranteed debt). Directors also decided that the exceptional assistance from the Fund and IDA would be front-loaded, in view of Bolivia's heavy debt-service burden in the coming years, and they encouraged other official creditors to also front-load their assistance. In May 1997, the Board of the Inter-American Development Bank (IDB), Bolivia's largest creditor, had also agreed that Bolivia was eligible for relief under the Initiative, and supported a target of 225 percent for the ratio of the NPV of debt to exports.

2. **In September 1997, the Boards of the Fund and IDA scheduled the completion point for September 1998**, one year after the decision point. This shortening of the interim period took into account Bolivia's strong policy track record since 1985 and the strength of its current economic program, as well as the IDB's support for this shorter period. The specific conditions established for Bolivia to reach the completion point were:

- completion of the midterm review under the third annual arrangement of the ESAF arrangement approved in December 1994;

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[1]Approved by Claudio Loser and Joaquín Pujol (IMF) and Masood Ahmed and Isabel Guerrero (IDA).

[2]**Bolivia—Final Document on the Initiative for the Heavily Indebted Poor Countries**, (EBS/97/165, 8/27/97) and (IDA/R97–109, 8/27/97).

- Fund Board approval of a new ESAF arrangement;
- completion of financial sector and other structural measures, including those supported by IDA under the Capitalization Program Adjustment Credit;
- implementation of the social development policies monitored under the Initiative and supported by IDA and the IDB; and
- satisfactory assurances of the participation of all official creditors in the Initiative.

3. **This paper provides the assessment of Fund and IDA staff that Bolivia has satisfied the conditions for reaching the completion point under the HIPC Initiative.** Section II summarizes Bolivia's economic policies and performance, including progress on social reforms. Section III describes the status of creditor participation. Section IV updates the assessment of how Bolivia will benefit from the HIPC assistance, and Section V presents concluding remarks. This paper will be published in accordance with the recent decision of the Boards of the Fund and IDA to publish final decision and completion point documents for all HIPC countries after the paper is considered by the Boards of both institutions.[3]

II. Bolivia's Economic Policies and Performance

A. The 1998 Economic Program

4. **The authorities' program for 1998 aimed to support an increase in economic growth from about 4 percent in 1997 to 4½–5 percent in 1998, with a further reduction in poverty.**[4] The program also sought to limit the inflationary effects of an increase in indirect taxes and reduce inflation slightly to 6½ percent during 1998 (Table 1). After rising by over US$100 million in 1997, net international reserves were to remain constant in 1998, while gross international reserves would be kept broadly stable in relation to imports and the short-term liabilities of the central bank. Key structural reforms included bringing the refineries of the state petroleum company (YPFB) to the point of sale, privatizing the state smelting company (Vinto), improving governance through judicial and customs reform, continued strengthening of financial sector supervision, and beginning a social dialogue on labor market reform (Box 1). To maintain macroeconomic stability and help offset a large part of the fiscal

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[3]This decision was approved by the Fund Board on June 24 (EBD/98/64) and by the IDA Board on July 22 (IDA/R98-110).

[4]The program is described in the authorities' Memorandum of Economic Policies of January 20, 1998.

Box 1. Bolivia: Status of Structural Reforms

Reform	Completion Date	Reform	Completion Date
International trade openness		**Developing efficient financial markets**	
• Unified exchange rate system	1985	*Banking sector development*	
• All nontariff barriers eliminated	1985	• Interest rate liberalized	1988
• Tariffs set at 5 percent for capital goods imports and 10 percent for the rest	1990	• Improved banking supervision	1991–93
		• Liquidation of state-owned banks	1995
		• Central bank independence	1998
		• Liberalizing foreign competition in banking services	1998
Divesture of public enterprises		*Capital market developments*	
• Capitalization of 5 major enterprises	1995–96	• Passage of securities and insurance laws	1998
• More than 50 small enterprises sold or liquidated	1993–ongoing	• Competition with nonbanking entities	Pending
• Refineries and smelting company	Pending	• Promotion of microcredit	Ongoing
Public administration		**Improving the legal and regulatory framework**	
• Tax administration (SAFCO law)	1990	• Sectoral regulatory system (SIRESE)	Incomplete
• Decentralization	1994–95	• Deregulating labor market	Pending
• Pension reform	1997	• Business environment (commercial code)	Incomplete
• Civil service reform	Pending	• Transport law	1998
Quality investment in human capital		**Governance**	
• Education reform	Progress	• Customs reform	Ongoing
• Health reform	Limited progress	• Judicial reform	Ongoing
• Rural development	Ongoing		

costs of structural reforms (especially the pension reform) implemented since 1995,[5] the authorities adopted fiscal measures yielding the equivalent of about 2.5 percent of GDP, including a sharp increase in taxes on domestic petroleum products in December 1997. Nevertheless, the overall public sector deficit was targeted to rise from 3.3 percent of GDP in 1997 to 4.1 percent of GDP in 1998, as the cost of the structural reforms is projected to rise from 3 percent of GDP in 1997 to 5 percent of GDP in 1998. Net concessional external financing will likely reach 2.1 percent of GDP in 1998, including expected HIPC assistance. The Bolivian authorities are working with IDA and IDB to develop additional programs in the financial and social sectors, respectively, that could be supported by additional disbursements of 0.5 percent of GDP in 1998.

5. **So far in 1998, macroeconomic policies have remained on track.** In the first half of the year, the combined public sector deficit was less than programmed, the net domestic assets of the central bank rose as expected, and structural reforms were implemented on schedule. Consumer prices rose by 6.1 percent in the twelve months ended in August, in line with the program. Price performance benefited from the decline in world petroleum prices, following the adoption of an automatic link between domestic and international petroleum prices in December 1997. Net international reserves were kept unchanged in the first half of 1998, as programmed. Preliminary data suggest that economic activity rose by 4.7 percent in the first half of the year, led by rapid growth in construction, communications and financial services that more than offset the effects of *El Niño* on agricultural output.

B. Economic Program for 1998–2000

6. **The authorities' new medium-term economic program seeks a significant reduction in poverty by 2002 through faster economic growth and stronger social programs.**[6] The authorities noted that the medium-term strategy that Bolivia has followed since 1985 has yielded significant gains on the inflation and external fronts. Nonetheless, growth per capita has averaged less than 2 percent a year this decade, and poverty and social conditions have improved only gradually (about 70 percent of the population remain in poverty). In assessing how to improve on this performance, the authorities saw no need for a major overhaul of the medium-term strategy. However, they believe that implementation of reforms has fallen short in some key areas, most notably with respect to social programs, the

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[5]The 1996 pension reform (which took effect in May 1997) established a funded system of private individual retirement accounts, raised the retirement age and mandated a broader coverage of the formal workforce. Under the new system, the government lost social security tax revenue (1 percent of GDP), paid pensions to newly retired workers eligible to receive benefits under the old system (1 percent of GDP) and took over responsibility to pay private "complementary pensions" (1 percent of GDP), which had been unfunded.

[6]This program is explained in the authorities' Memorandum of Economic Policies and Economic Policy Framework Paper of August 14, 1998.

quality of public investment (following the fiscal decentralization of 1994–95) and governance. Also, a revision of labor legislation has just been placed on the reform agenda and civil service reform is still in the planning stages. The authorities cautioned that several factors, such as fragile confidence of residents and the steady decline in Bolivia's terms of trade since 1984, had diminished the growth-enhancing effects of the strategy. Moreover, the landlocked nature of the country has resulted in higher transport costs and meant that Bolivia needed deeper reforms to increase efficiency and foster economic growth.

7. **As in the past, the cornerstone of the program is structural reform**, which is supported by IDA, the IDB, the Fund, donor countries, and other external creditors. The authorities plan to emphasize improvements in education and health, fiscal decentralization, and governance. In addition, while financial supervision has improved considerably in recent years, the process of reform in that area needs to be completed to create full confidence in the financial system. Other reforms include completing the process of privatization, deepening domestic capital markets, continuing with the civil service reform, and liberalizing labor markets (Box 2).

8. **Under the program, macroeconomic stability will be maintained** through continued fiscal discipline and credit restraint. In particular, fiscal policy will emphasize generating more public savings to help boost Bolivia's relatively low national savings and hold the external current account deficit on a sustainable path. The exchange rate will continue to be set in an auction, with the floor price adjusted broadly in line with the inflation differential between Bolivia and its key trading partners.

9. **The authorities expect these policies to boost economic growth from 4½–5 percent in 1998 to 5½–6 percent by 2000 and to 6 percent and possibly more by 2002** (Table A). At the same time, inflation would decline by ½ percentage point a year to 4½ percent by 2002, and gross international reserves would rise sufficiently to keep reserves equivalent to about 6½ months of merchandise imports. Investment would continue to rise in relation to GDP, although the rate of growth in investment would taper off as the construction of the gas pipeline to Brazil is completed in 1999. Investment would be financed by higher private savings, related in part to the effects of the 1996 pension reform and the capitalization process, as well as by higher public savings.[7] The external current account deficit would decline from over 8 percent of GDP in 1998 to less than 5 percent of GDP by 2002, and would be financed in full during this period by foreign direct investment and concessional lending from abroad.

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[7]Under capitalization, 50 percent ownership and full management control was granted to the private investors who committed to make the largest investments in each enterprise. The remaining 50 percent of the shares were passed to the Bolivian population at least 21 years of age at end-1995.

Box 2. Structural Reform Agenda, 1998–2000

Strengthen education and health reform

1. In education, the government plans to reallocate budget resources from universities to primary and secondary education; increase the responsibility of local governments for education, which will allow for better school management and more parent participation; reward good teaching through a merit pay system; rehabilitate dilapidated schools; and ensure an adequate supply of learning materials. The government's recent five-year national plan calls for increased spending on basic health, expanded access to primary and preventive care for the poor, and improved coordination in services provided across different levels of government. The IDB and IDA are supporting these reforms through sectoral loans and, together with the government, have identified a core group of nonsalary items in education and health that will be protected from future cuts in public spending.

Develop national road network

2. The National Road Service (SNC) (by December 1998) will draw up a master plan for the national road system that will delineate the responsibilities of the national and local governments and, starting in 1999, the SNC will be financed with 70 percent of the tolls collected on national highways. The SNC will also study the costs of maintaining the system and the government will provide sufficient funding for maintenance in the budget starting in 2000.

Complete privatization

3. The government plans to privatize all remaining public enterprises, including those owned by the armed forces. The most important action is to privatize YPFB's refineries by June 1999. The other parts of YPFB still in the public sector are being privatized (the drilling service unit was sold by June 1998 and the remaining natural gas network, jet fuel stations, and bottling plants will be sold by March 1999). The government will also bring the state smelting company (Vinto) to the point of sale by October 1998. The government also plans to sell several smaller public enterprises over the next six months.

Strengthen financial sector further

4. By June 1999 the government will submit to congress a draft law to establish a deposit insurance system and to improve the system of resolving problems of banks in difficulty. This law will also curtail the role of the central bank in bank rescue operations to allow it to concentrate on monetary policy.

Deepen domestic capital markets

5. In June 1998 the superintendencies of pensions, securities, and insurance were consolidated into one superintendency, and an appeals body for financial matters (SRJ) was created. In September 1999 CONFIP will issue norms to subject nonbank financial intermediaries to the same legal and regulatory framework as banks, with a view to strengthening the system of microcredit.

Improve governance

6. Three independent legal institutions (the Judicial Council, the Ombudsman and the Constitutional Court) have been established since August 1997. The Judicial Council and the Ombudsman will become operational by December 1998, and the Constitutional Court by December 1999. The government will submit to congress draft laws on administrative procedures by June 1999, on penal code procedures and the civil process code by end-1999, and on a commercial code by end-2000. The government is carrying out a comprehensive customs reform, designed with the technical assistance of the IMF's Fiscal Affairs Department (FAD), and the authorities will aim to secure passage of a new customs law by June 1999.

Reform labor legislation

7. In May 1998 the government started a national dialogue with key business, labor, and political groups to seek a consensus for reforming the labor law, which is antiquated, overly complex and discourages employment in the formal sector. By end-1998, the government will develop a proposed draft law that will serve as a basis for discussion among the key business, labor and political groups.

Table A. Bolivia: Medium-Term Framework

	Prel. 1997	1998	1999	Projections 2000	2001	2002
	(Annual percentage change)					
Income and prices						
Real GDP	4.2	4.7	5.2	5.5	5.8	6.0
Real domestic demand	7.1	6.6	2.5	3.7	3.6	4.4
CPI inflation (end of period)	6.7	6.5	6.0	5.5	5.0	4.5
	(In percent of GDP)					
Investment and savings						
Gross domestic investment	18.7	18.8	19.5	19.7	20.7	21.0
Public	7.2	6.3	6.8	7.0	7.2	7.4
Private, including stocks	11.5	12.6	12.7	12.7	13.5	13.6
Gross national savings	10.5	10.6	12.4	13.7	15.2	16.6
Public	3.0	1.8	3.1	3.8	4.6	5.4
Private	7.6	8.9	9.4	9.9	10.6	11.2
Combined public sector						
Nonpension balance	-0.8	-0.1	0.3	0.5	0.9	1.5
Pension-related balance	-2.5	-4.1	-3.9	-3.7	-3.5	-3.5
Overall balance	-3.3	-4.1	-3.6	-3.2	-2.6	-2.0
Foreign financing	2.7	2.6	2.8	2.4	1.9	1.9
Domestic financing	0.5	1.5	0.8	0.8	0.7	0.1
	(Annual percentage change, unless otherwise stated)					
Money and credit						
M3 growth	17.1	14.5	12.5	12.0	13.0	13.1
Credit to private sector	21.1	14.3	12.1	11.0	10.9	11.0
External sector (US$ million)						
Current account balance 1/	-647	-702	-650	-596	-576	-511
(percent of GDP)	-8.1	-8.2	-7.0	-6.0	-5.5	-4.4
Of which: trade balance	-684	-721	-553	-446	-310	-199
Capital account balance	750	677	613	567	584	555
Of which: foreign direct investment	591	623	638	622	617	557
Overall balance 2/	103	0	30	40	70	90
Gross official reserves (months of imports)	7.5	6.8	6.9	7.0	7.0	6.9
Public sector external debt (US$ billion) 3/4/	4.5	4.3	4.5	4.6	4.7	4.8
Public sector external debt (percent of GDP) 3/4/	56.2	50.3	48.7	46.5	44.6	41.4
Debt-service ratio 3/5/	26.1	23.0	18.8	18.0	16.8	16.1

Sources: Central Bank of Boliva; Ministry of Finance; and Bank/Fund staff estimates.

1/ Excludes grants to finance debt-reduction operations.
2/ Includes exceptional financing.
3/ From 1998 onward, debt and debt service include HIPC assistance.
4/ Includes obligations to the IMF and debt with public guarantee.
5/ On public sector medium-and long-term external debt (including payments to the Fund) in percent of exports of goods and services.

Table B. Bolivia: Selected Social Policy Actions and Outcome Indicators, 1997-2000

	1996	1997 Target	1997 Estimate	1998 Targets	1999 Targets	2000 Targets
Education						
Total expenditures on primary and secondary education (percent of GDP)	3.1	3.3	3.3	3.5	3.9	3.9
Number of children completing 5th grade (thousands)						
Urban	86	88	87	91	98	99
Rural	60	63	63	66	70	75
Number of children in early childhood development programs	43,667	50,000	43,013	80,000	100,000	120,000
Health						
Public expenditures on health (percent of GDP)	1.4	n.a.	1.3	n.a.	n.a	n.a.
Percent of children (age 5 or under)						
Treated for						
Acute respiratory infection	37	43	69	50	60	70
Acute diarrhea	20	25	26	36	46	56
Receiving complete vaccinations 1/	78	80	93	82	83	85
Percent of births attended by trained staff	30	45	44	56	63	69
Percent of houses protected from Chagas	8	14	13	25	35	40
Rural Development						
Investment in rural road improvement (US$ millions)	32	32	39	42	48	55
Number of beneficiaries of basic sanitation projects	132,000	132,000	172,552	132,000	132,000	132,000

Source: Appendix I.

1/ Estimate for 1997 refers only to BCG (see Appendix I for other vaccinations).

C. Satisfactory Implementation of Social Policies

10. **Based on the joint assessment of IDA and IDB staff the authorities have made satisfactory progress, despite some delays, in implementing the policies and quantitative targets contained in the social matrix agreed at the decision point in 1997** (Table B and Appendix I). Several important programs and reforms initiatives are underway in education, health, child development, housing, and sanitation. These programs, financed by IDA, IDB, and bilateral donors, have a potentially large impact on social indicators and poverty reduction.

11. In **education**, coverage and completion rates for primary education have increased in line with targets; new textbooks incorporating indigenous languages have been produced and distributed and a national assessment system has been successfully implemented. In **health**, the percentage of births attended by trained staff increased from 30 percent to 45 percent; 80 percent of children are completing the vaccination cycle; the share of children treated for respiratory or stomach diseases has increased noticeably; and the share of families receiving protection against Chagas has almost doubled and the index measuring the incidence of malaria decreased from 20 to 15 percent. In June 1998 the authorities published a comprehensive national health strategy which proposed basic health insurance, an integrated childhood illness program, improved maternal and neonatal care, extensive immunization programs and better control of endemic diseases. In **rural development**, there is now a clear strategy for the use of social and rural development funds and a program to survey living standards regularly; also water and sanitation projects reached more than 180,000 households, compared with a target of 132,000.

12. **Nevertheless, several challenges and constraints require continued attention in order to strengthen the execution of programs and reforms underway, particularly in education, health, and child development**. Institutional capacity constraints mean that implementation of social programs and reforms has been slower than expected. Also, Bolivia is undertaking a needed strong fiscal adjustment, which limits the availability of budgetary resources and the pace of spending on key social and other programs.

13. The government is working with IDA to improve budgetary planning in the social sectors and to strengthen the execution capacity of social ministries through an institutional reform loan, as well as successor health and education reform loans. The government is also working with the IDB in the context of a sector adjustment loan to ensure the protection of fiscal resources for the implementation of key social programs in a way that is consistent with aggregate macroeconomic targets under the supported ESAF program and also designed to strengthen those programs contained in the social matrix aimed at developing the human capital of the poor. These efforts will be assisted by the debt service savings generated under the HIPC Initiative (Table 8). The ministry of finance, through its research unit (UDAPE), is also taking steps to strengthen the planning and monitoring of social spending, and will monitor the progress in reducing poverty with the set of core Development Assistance

Committee (DAC) indicators (incidence of extreme poverty; poverty gap ratio; inequality; child malnutrition; infant mortality rate; and maternal mortality rate).

III. Status of Creditor Participation

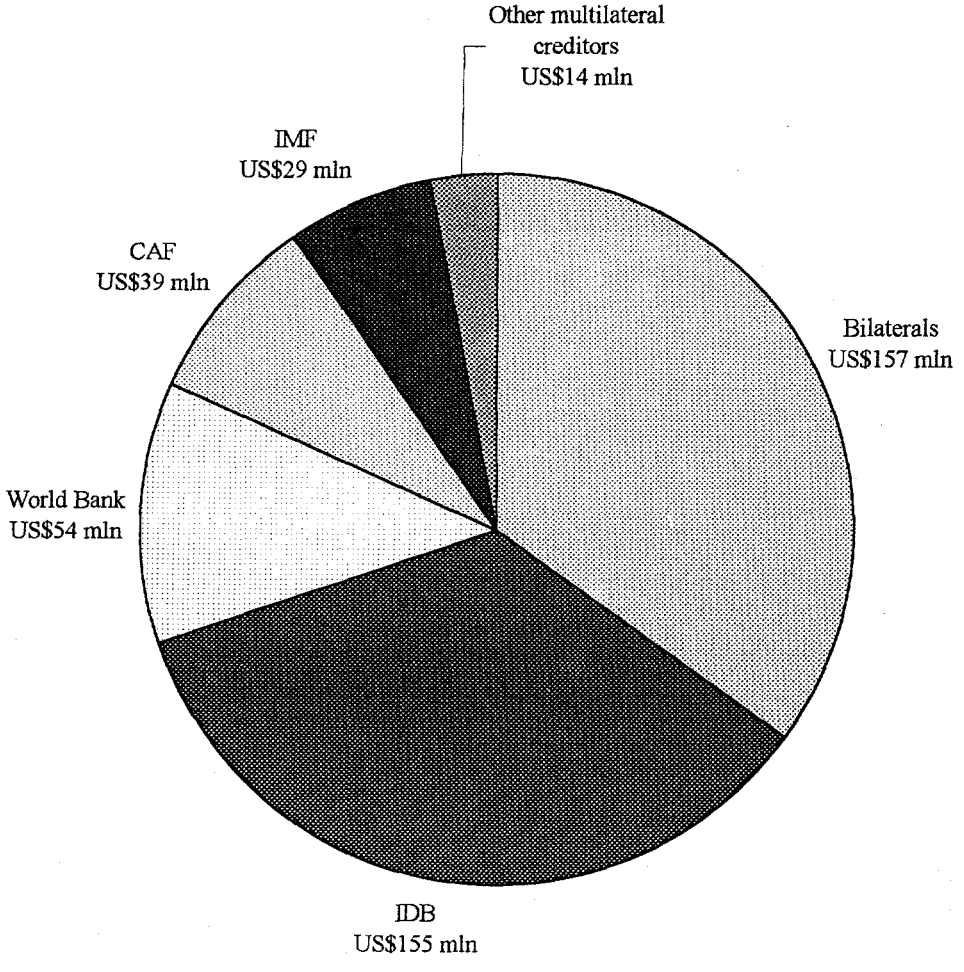
14. The assistance from IDA and the IMF committed to Bolivia at the decision point under the HIPC Initiative is conditional, inter alia, on satisfactory assurances of commensurate action by Bolivia's other creditors. Of the total of close to US$450 million of debt assistance in NPV terms under the HIPC Initiative, **Bolivia's multilateral creditors** are to provide a little over US$290 million (Figure 1). (Total debt service relief in nominal terms will amount to about US$760 million, of which about US$430 million represents savings on multilateral debt.) These creditors have confirmed that, at the completion point, they will provide assistance to reduce the NPV of their claims in accordance with the decision taken by the Boards of the IDA and the Fund at the decision point. Bolivia does not have outstanding arrears to multilateral creditors.

15. The **IDB** will provide assistance to Bolivia for US$155 million in NPV terms (US$253 million in nominal debt service savings) through a combination of: (a) a write-off of selected concessional loans from its Fund for Special Operations (FSO), and (b) the partial payment of interest on selected loans from its Ordinary Capital (OC) using its Intermediate Financing Facility (IFF), a long-established interest subsidy mechanism (Table 2). The write-off of selected FSO loans (principal and interest) in an amount of US$55.4 million in NPV terms (US$129 million in nominal terms) will be covered by a reduction in the FSO general reserve. In the case of selected OC loans, the NPV debt reduction will be achieved by subsidizing up to 5 percentage points of the applicable interest rate (subject to a floor of the net lending rate of 1.88 percent) by means of interest payments from the IFF as debt service falls due over the period 1998–2015. The reduction in debt service for Bolivia on this account will total US$99.7 million in NPV terms (US$124 million in nominal debt service savings) over the period. This will constitute a significant frontloading of the IDB's assistance, with over 60 percent of the NPV relief to be delivered by 2003.

16. **IDA** assistance amounts to US$54 million in NPV terms, and is to be delivered through the use of resources from the HIPC Trust Fund to cover all debt service to IDA until these resources, including interest earned, are exhausted, most probably in early 2002 (Table 3). Total debt-service relief in nominal terms would amount to approximately US$65 million. IDA's assistance under the HIPC Initiative would average US$18 million a year in 1999–2001.

17. **Fund** assistance would take the form of a grant (equivalent to US$29 million in NPV terms) deposited in an escrow account, which would accrue interest to be used to meet Bolivia's debt service to the Fund under an agreed schedule (Table 4). The Fund's assistance

Figure 1. Bolivia: Structure of HIPC Assistance, NPV terms at end-1997
(In millions of US dollars)



Sources: Bank/Fund staff estimates.

is estimated to amount to about US$5 million in 1998 and US$10–11 million a year in 1999 and 2000, consistent with the need to significantly frontload the HIPC assistance for Bolivia.

18. The **Andean Development Corporation** (CAF) will participate through a contribution from its net income supplemented by allocating its technical cooperation funds for debt-relief purposes, as well as through donor contributions. **The Financial Fund for the Development of the Basin of the River Plate** (FONPLATA) is expected to refinance outstanding loans at a reduced interest rate and longer maturity, as well as through donor contributions. The **Nordic Development Fund** will participate through the HIPC Trust Fund, which will pay debt service due on behalf of the debtor until the resources set aside for this purpose are exhausted. The **International Fund for Agricultural Development** (IFAD) has approved a self-administered facility, which would provide debt-service relief to Bolivia. The **OPEC Fund** proposes to provide Bolivia with a US$4 million balance-of-payments loan with a higher grant element than existing loans, the proceeds of which would be used to pay debt service on existing debt. For the remaining very small multilateral creditor, which has not provided specific modalities, it has been assumed that either grants or a concessional rescheduling would be used to deliver the required debt relief in NPV terms.

19. **Bilateral creditors** are to provide US$157 million of debt relief in NPV terms. At their June 1997 meeting, **Paris Club creditors** agreed to top up Bolivia's Naples terms stock-of-debt operation to Lyon terms (80 percent NPV reduction), once Bolivia reaches its completion point under the HIPC Initiative. In addition, Bolivia can expect further relief on its ODA debt. In this regard, Japan has indicated its intention to provide further debt reduction—beyond rescheduling over 40 years with 16 years grace, at no more than the original concessional interest rate, as required under Lyon terms—on its ODA loans. Regarding **non-Paris Club bilateral creditors**, the authorities have recently reached concessional rescheduling agreements with Poland and Venezuela on terms at least comparable with those of the Paris Club.[8] Bolivia has contacted Brazil, the only remaining creditor with obligations that could be considered reschedulable, to reach agreement on an appropriate rescheduling of these obligations on terms at least comparable with those of the Paris Club.[9]

IV. Benefits of the Assistance under the HIPC Initiative

20. **The HIPC assistance is projected to reduce the end-1997 NPV of Bolivia's external public and publicly guaranteed debt to 218 percent of exports**. The ratio of the NPV of debt to exports after HIPC assistance is less than originally targeted, because

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[8]The buyback agreement with Poland, a de-minimis creditor, is slightly more favorable than Lyon terms, while Venezuela agreed to cancel its claims on Bolivia.

[9]Bolivia has nonreschedulable debt obligations to China and Taiwan Province of China.

Bolivia's end-1997 external public and publicly guaranteed debt before HIPC relief is somewhat less than had been projected at the decision point (Table 5).[10]

21. **The HIPC assistance will reduce external debt and debt service substantially in the next few years.** The HIPC assistance is estimated to be significantly frontloaded, with about 40 percent of the assistance to be provided by 2002 and the remainder to be distributed over the period 2003–2037 (Figure 2). The NPV of debt-to-exports ratio (after HIPC assistance) would decline from about 220 percent in 1998 to under 200 percent in 2001 and to 150 percent by 2005 (Figure 3). The HIPC assistance would lower debt service as a share of exports by about 2 percentage points a year. The debt-service ratio (after HIPC assistance) would fall from 26 percent in 1997 to 23 percent in 1998 and about 19 percent in 1999, and to about 15 percent in 2005 and beyond.

22. **Based on the updated debt sustainability analysis (DSA), the assistance under the HIPC Initiative will reduce the vulnerability of Bolivia's external sector** (Box 3). The external current account deficit is projected to remain at 8 percent of GDP in 1998 and then decline gradually to 4 percent of GDP by 2005, as the recent sharp increase in foreign direct investment is assumed to wind down gradually (Table 6). The overall balance of payments is projected to register moderate surpluses, as foreign direct investment and net concessional financing would more than cover the current account deficits. A hypothetical 25 percent decline in the world price of metals (one of the scenarios in the sensitivity tests of the previous sustainability analysis) would boost the NPV debt-to-exports ratio to 228 percent in 1999, which is still high but below the threshold of 250 percent (Table 7).[11]

23. **The updated DSA also continues to show that the public sector must continue to limit its borrowing to obligations with very long maturities and on concessional terms, to safeguard viability.** In the next several years, the authorities will strictly limit borrowing on nonconcessional terms.[12] In the medium term, as creditworthiness improves and GNP per

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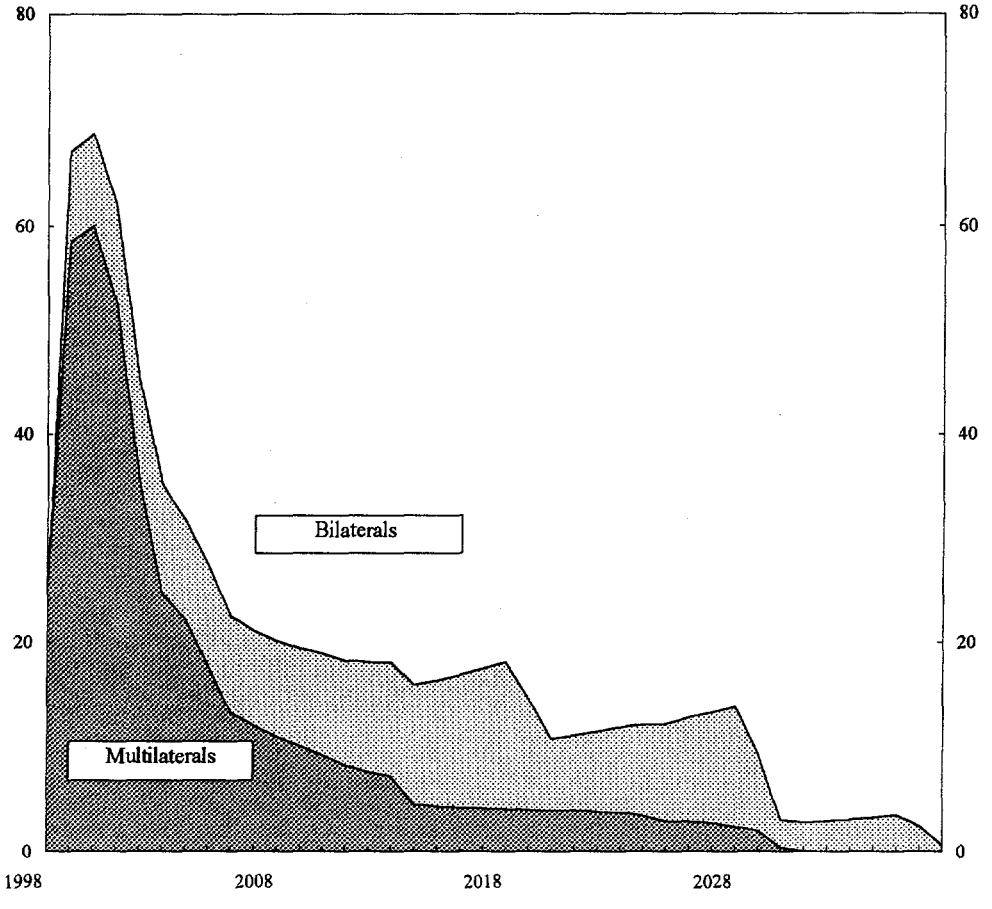
[10]The differences between the projections of the end-1997 NPV of debt that were made in September 1997 and the estimates made in September 1998 reflect the net effect of a stronger than expected exchange rate for the U.S. dollar vis-à-vis all other major currencies during 1997; a larger transfer of public enterprise debt to the private sector following the capitalization of the state petroleum company (YPFB); and lower discount rates (CIRRs) for most major currencies.

[11]This sensitivity scenario assumes a permanent decline in metals prices that would occur over 1998–1999 (see Table 7).

[12]As an illustration of the importance of this, if hypothetically one quarter of the new concessional borrowing by the public sector were replaced by nonconcessional borrowing with six-year maturity and one-year grace, the debt service ratio would rise by 4 percentage

(continued...)

Figure 2. Bolivia: Estimated Time Profile of HIPC Assistance (1998-2037)
(In millions of U.S. dollars)

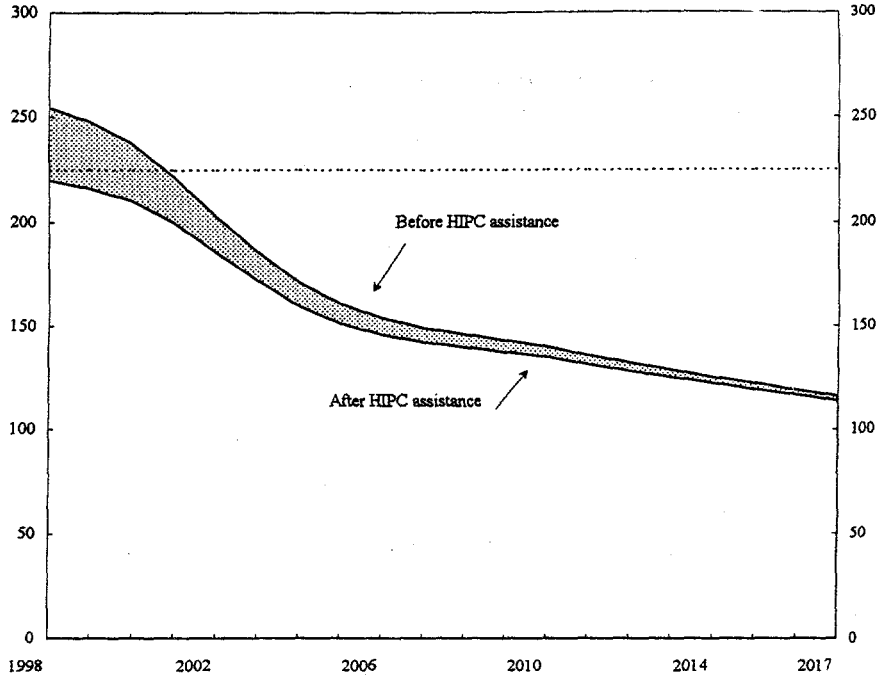


Sources: Central Bank of Bolivia, and Bank/Fund staff estimates.

[12](...continued)
points to 20 percent by 2005, more than offsetting the benefits of the HIPC assistance on the debt-service ratio.

Figure 3. Bolivia: Impact of HIPC Assistance, 1998-2017

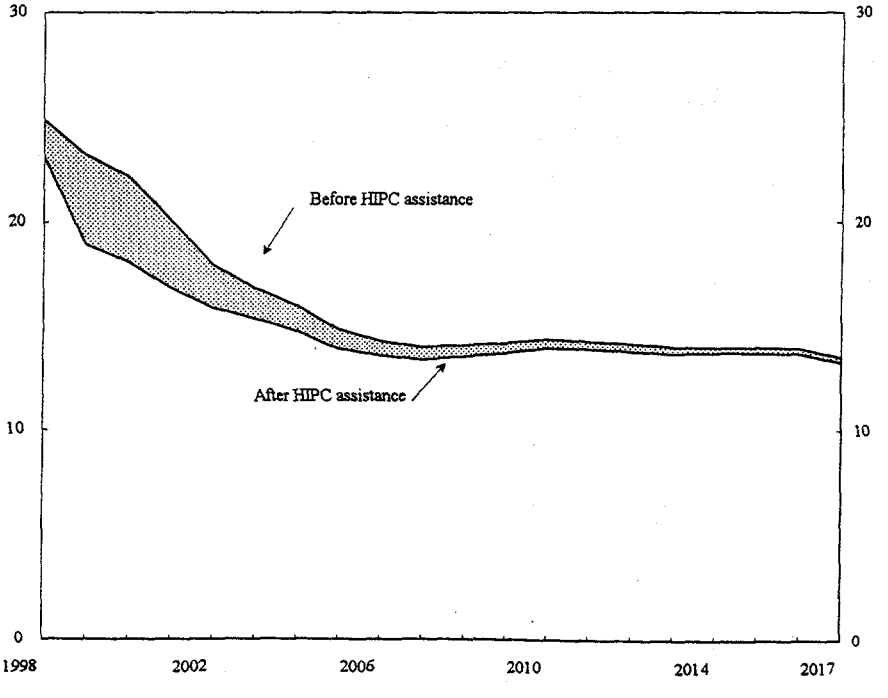
Panel 1: NPV of Debt-to-Exports Ratio



Sources: Bank/Fund staff estimates.

Note: The dotted line represents the 225percent target for Bolivia.

Panel 2: Debt-Service Ratio



Sources: Bank/Fund staff estimates.

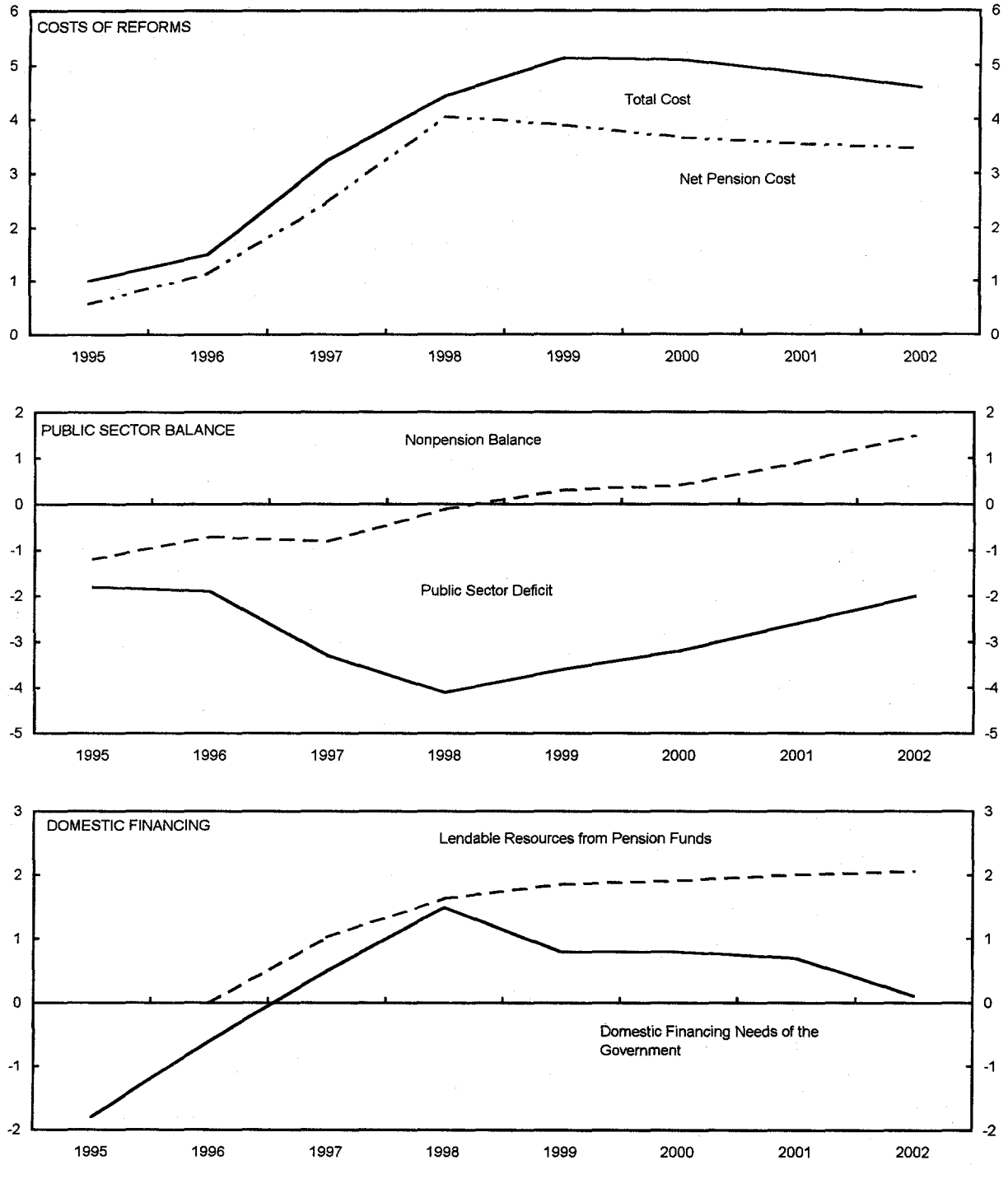
Box 3. Bolivia: Assumptions Used in the Debt Sustainability Analysis (DSA)

- Annual average real GDP growth of 5 percent in 1998 and 1999, 5.8 percent in 2000, and 6 percent thereafter.
- Average export volume growth of 9.5 percent in 1998–2006 (largely driven by a rapid increase in gas exports via the pipeline to Brazil, a near doubling of the country's output of silver, zinc and lead by 2002 resulting from development of the San Cristóbal mine, and continued fast growth in nontraditional exports), and 6 percent growth thereafter.
- Import volumes are projected to fall by about 4 percent in 1999 following construction of the gas pipeline to Brazil. Volume growth would then rise to 4.5 percent annually in 2000–2004 and to slightly over 6 percent thereafter. The income elasticity of imports is assumed to be 1.25 between 1999–2003 and 1.1 thereafter.
- Official grants will gradually taper off from the equivalent of 2.4 percent of GDP in 1997 to under 1 percent in 2003 and less than 0.5 percent starting in 2012.
- Foreign direct investment will peak at 9 percent of GDP in 1998, reflecting the gas pipeline project before stabilizing at 4.5 percent of GDP from the beginning of the next decade.
- Total new external borrowing is assumed to decline from almost 5 percent of GDP in 1997 to about 3 percent in 2001–2010 and to about 2.5 percent thereafter. Concessional loans would gradually fall from 2.5 percent of GDP in 1997 to less than 1 percent in 2003.
- Following a decline of 6 percent in 1998, the terms of trade are assumed to slowly recover by an average of 1 percentage point per year in the following 5 years, before leveling off from 2004 onwards.
- Following the stock-of-debt operation with Paris Club creditors in December 1995 (Naples terms 67 percent NPV reduction), the projections assume at least comparable rescheduling terms on eligible debt from non-Paris Club official bilateral and commercial creditors. In addition to assistance under these traditional debt-relief mechanisms, the projections incorporate the assumed profile of exceptional assistance from all creditors under the HIPC Initiative.
- With respect to the DSA described in the final HIPC document (EBS/97/165 and IDA/R97–109, 8/27/97), the main differences in the assumptions are an upward revision of the medium-term path of private foreign direct investment (by about 2 percentage points of GDP a year on average) and a consequent upward revision of export volume growth for 2000–2005.

capita surpasses US$1,000, it is expected that the country will rely less on concessional financing than is currently the case.

24. **The HIPC assistance will enable the authorities to intensify social reforms in a period when fiscal policy faces strong constraints** (Box 4). The combined public sector deficit has doubled between 1996 and 1998, mainly because of the sharp increase in the fiscal costs of structural reforms adopted since 1995 (Figure 4). At the same time, the structural reforms have led to a surge of foreign direct investment while national savings has remained relatively low, leading to the significant widening of the external current account deficit in

Figure 4. Bolivia: The Fiscal Cost of Reforms and the Fiscal Position, 1995-2002
(In percent of GDP)



Sources: Ministry of Finance; and Bank/Fund staff estimates.

1997–98. To keep the external current account deficit on a sustainable path, it is crucial for the government to return the fiscal deficit gradually to its level of 1996 (prior to the pension reform) to help strengthen national savings. In this context, the HIPC assistance is projected to reduce the government's external debt-servicing costs by 0.7 percent of GDP a year in 1999–2001, making room for an increase in social sector spending from 10.8 percent of GDP in 1997 to 11.6 percent of GDP in 2001 (Table 8).

Box 4. Key Aspects of the Social Reform Program

Education

- reallocate budget resources from universities to primary and secondary education;
- increase the responsibility of local governments for education, to help ensure better school management and more parent participation;
- reward good teachers through a merit pay system;
- rehabilitate dilapidated schools; and
- ensure an adequate supply of learning materials.

Health

Implement recently published five-year national health plan which calls for:

- increased spending on basic health;
- reduced incidence of endemic diseases that affect a large portion of the population, particularly in rural areas;
- improved access of mothers and children to an integrated package of basic and nutrition services;
- improved the payment/reimbursement mechanisms for health interventions, through a basic health insurance scheme; and
- improved coordination of services provided across different levels of government.

V. Conclusions

25. Bolivia's economic policies and performance remain very strong, and IDA and IDB staff believe that, despite some delays, the authorities have made satisfactory progress on social policies within the constraints imposed by the fiscal situation. Moreover the HIPC assistance will lower the NPV of debt-to-export ratio at end-1997 to slightly below the original target of 225 percent, reduce the vulnerability of the economy to external shocks and make possible a permanent exit from further reschedulings. All multilateral and Paris Club creditors have provided satisfactory assurances of their participation in the HIPC Initiative for Bolivia, and strong efforts have been made to reach reschedulings on comparable terms with other bilateral creditors. **Accordingly, the staffs of the Fund and IDA believe that Bolivia has satisfied the conditions for reaching the completion point under the HIPC Initiative.**

Table 1. Bolivia: Selected Economic and Financial Indicators

	1995	1996	1997	1998 Prog.	1998 Rev. Prog.	1999 Prog. 1/	1999 Rev. Prog.
	(Annual percentage change)						
Income and prices							
Real GDP	4.7	4.1	4.2	4.7	4.7	5.5	5.2
Real domestic demand	4.6	4.9	7.1	5.3	6.6	2.5	2.5
CPI inflation (period average)	10.2	12.4	4.7	7.9	8.2	6.4	6.0
CPI inflation (end-of-period)	12.6	8.0	6.7	6.5	6.5	6.0	6.0
	(In percent of GDP)						
Investment and savings							
Gross domestic investment	15.6	16.5	18.7	18.9	18.8	20.0	19.5
Public	8.3	8.0	7.2	7.0	6.3	6.5	6.8
Private, including stocks	7.3	8.5	11.5	11.8	12.6	13.5	12.7
Gross national savings	10.6	11.3	10.5	11.1	10.6	14.3	12.4
Public	5.8	6.0	3.0	2.4	1.8	1.5	3.1
Private	4.8	5.3	7.6	8.7	8.9	12.8	9.4
Combined public sector							
Nonpension balance	-1.2	-0.7	-0.8	-0.1	-0.1	0.1	0.3
Pension-related balance	-0.6	-1.1	-2.5	-4.0	-4.1	-3.0	-3.9
Overall balance	-1.8	-1.9	-3.3	-4.1	-4.1	-2.9	-3.6
Foreign financing	3.6	2.5	2.7	3.4	2.6	2.4	2.8
Domestic financing	-1.8	-0.6	0.5	0.7	1.5	0.5	0.8
	(Annual percentage change, unless otherwise stated)						
Money and credit							
M3 growth	9.5	24.9	17.1	16.0	14.5	12.0	12.5
Credit to private sector	12.6	13.6	21.1	14.8	14.3	12.0	12.1
Interest rates (percent, end-of-period)							
Yield on treasury bills in local currency	26.6	16.5	12.3	...	...	...	...
Yield on treasury bills in U.S. dollars	14.8	6.4	7.8	...	...	...	...
External sector (US$ million)							
Current account balance 2/	-335	-385	-647	-661	-702	-530	-650
(percent of GDP)	-5.0	-5.1	-8.1	-7.7	-8.2	-5.8	-7.0
Of which: trade balance	-301	-447	-684	-639	-721	-516	-553
Capital account balance	257	727	750	636	677	500	613
Of which: foreign direct investment	177	426	591	506	623	513	638
Overall balance 3/	123	342	103	0	0	45	30
International trade							
Export volume	11.2	3.0	5.0	9.8	11.1	9.0	5.9
Import volume	-1.0	18.4	22.2	8.3	5.7	-1.0	-4.5
Terms of trade (deterioration -)	-10.2	5.0	2.2	-2.3	-6.0	-0.3	1.1
Gross official reserves (months of imports)	5.6	7.3	7.5	6.8	6.8	6.9	6.9
Public sector external debt (US$ billion) 4/ 5/	4.8	4.6	4.5	4.8	4.3	4.9	4.5
(percent of GDP) 4/ 5/	72.5	61.7	56.2	56.5	50.3	54.2	48.7
Debt-service ratio 4/ 6/	42.2	25.6	26.1	24.4	23.0	23.9	18.8
Exchange rates							
Boliviano/US$ (end-period) 7/	4.9	5.2	5.4	...	5.5	...	...
NEER (1990=100, period average) 8/	467	459	471	...	476	...	...
REER (1990=100, period average) 8/	90	95	99	...	105	...	...

Sources: Central Bank of Bolivia; Ministry of Finance; and Bank/Fund staff estimates.

1/ Targets for income and prices, investment and savings, combined public sector, and money and credit are from International Monetary Fund, EBS/97/164, August 27, 1998.

2/ Excludes grants to finance debt-reduction operations.

3/ Includes exceptional financing.

4/ For 1998 and 1999 revised program, debt and debt service include HIPC assistance.

5/ Includes obligations to the IMF and debt with public guarantee.

6/ On public sector medium- and long-term external debt (including payments to the Fund) in percent of exports of goods and services.

7/ For 1998, June.

8/ For 1998, January-May.

Table 2. Bolivia: Delivery of HIPC Assistance by the IDB

(In millions of U.S. dollars)

	Nominal FSO 1/	Nominal IFF	PV FSO	PV IFF	Total Nominal	Total PV
1998	1.39	10.43	1.39	10.43	11.82	11.82
1999	2.76	19.03	2.57	18.00	21.79	20.58
2000	4.74	17.06	4.12	15.27	21.80	19.39
2001	5.23	15.08	4.24	12.78	20.32	17.02
2002	5.17	13.11	3.90	10.51	18.28	14.42
2003	5.10	11.14	3.59	8.46	16.24	12.05
2004	5.03	9.17	3.30	6.59	14.20	9.90
2005	4.96	7.38	3.04	5.03	12.35	8.07
2006	4.90	5.88	2.80	3.79	10.78	6.59
2007	4.83	4.69	2.57	2.86	9.52	5.43
2008	4.76	3.74	2.36	2.16	8.50	4.52
2009	4.69	2.87	2.17	1.57	7.57	3.74
2010	4.62	2.07	2.00	1.07	6.70	3.07
2011	4.56	1.23	1.83	0.60	5.79	2.43
2012	4.49	0.61	1.68	0.28	5.10	1.97
2013	4.42	0.32	1.55	0.14	4.74	1.69
2014	4.35	0.16	1.42	0.07	4.51	1.48
2015	4.29	0.05	1.30	0.02	4.34	1.32
2016	4.22	0.00	1.20	0.00	4.22	1.20
2017	4.15	0.00	1.10	0.00	4.15	1.10
2018	4.08	0.00	1.01	0.00	4.08	1.01
2019	4.01	0.00	0.92	0.00	4.01	0.92
2020	3.95	0.00	0.84	0.00	3.95	0.84
2021	3.88	0.00	0.77	0.00	3.88	0.77
2022	3.81	0.00	0.71	0.00	3.81	0.71
2023	3.74	0.00	0.65	0.00	3.74	0.65
2024	3.40	0.00	0.55	0.00	3.40	0.55
2025	2.89	0.00	0.44	0.00	2.89	0.44
2026	2.84	0.00	0.40	0.00	2.84	0.40
2027	2.79	0.00	0.37	0.00	2.79	0.37
2028	2.40	0.00	0.29	0.00	2.40	0.29
2029	2.02	0.00	0.23	0.00	2.02	0.23
2030	0.44	0.00	0.05	0.00	0.44	0.05
Total	128.90	124.04	55.36	99.65	252.95	155.00

Source: IDB staff estimates.

1/ Includes both principal and interest. Total assistance in principal payments = US$ 98.93 million.

Table 3. Bolivia: World Bank HIPC Assistance, 1998-2005
(Unless otherwise indicated, figures in millions of U.S. dollars)

	1998	1999	2000	2001	2002	2003	2004	2005
Debt service before HIPC relief	28.7	29.6	29.6	20.9	22.6	24.2	27.7	29.4
Of which								
IDA	12.9	15.4	17.9	20.7	22.6	24.2	27.7	29.4
Debt service after HIPC relief	24.2	14.2	11.7	0.3	15.8	24.2	27.7	29.4
Of which								
IDA	8.4	0.0	0.0	0.0	15.8	24.2	27.7	29.4
Assistance 1/	4.6	15.4	17.9	20.7	6.8	0.0	0.0	0.0
Of which								
IDA	4.6	15.4	17.9	20.7	6.8	0.0	0.0	0.0
Memorandum:								
Debt relief as percent of IDA debt service due (in percent)	35%	100%	100%	100%	30%	--	--	--

Sources: Central Bank of Bolivia; IDA staff estimates.

1/ Assumes resources equivalent to US$54 million in NPV terms are earmarked in the HIPC Trust Fund for payment of all IDA debt service falling due from the completion point until these resources are exhausted.

Table 4. Bolivia: Delivery of IMF Assistance Under the HIPC Initiative, 1998-2007 1/

(In millions of U.S. dollars, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Profile of delivery (in percent of amount deposited in escrow account (principal))	18.0	34.0	34.0	7.0	7.0	0.0	0.0	0.0	0.0	0.0
Repayment falling due on current IMF obligations 2/										
Principal	40.4	33.0	30.2	30.9	28.6	26.4	24.5	18.2	11.4	4.5
Interest	1.1	1.0	0.8	0.7	0.5	0.4	0.2	0.1	0.1	0.0
Total	41.5	34.0	31.0	31.6	29.1	26.8	24.8	18.3	11.4	4.6
IMF HIPC assistance 3/	5.6	10.8	10.3	2.2	2.1	0.0	0.0	0.0	0.0	0.0
Scheduled IMF debt service 4/	2.9	2.2	1.8	1.7	1.3	1.1	0.9	0.6	0.4	0.1
Of which										
Covered by HIPC assistance 4/	0.4	0.7	0.6	0.1	0.1	0.0	0.0	0.0	0.0	0.0

Sources: Central Bank of Bolivia; and Fund staff estimates.

1/ U.S. dollar equivalent to be deposited in SDR in an escrow account at the completion point at the exchange rate that will prevail at that date. The total amount of assistance is US$29 million in NPV terms.

2/ Based on end-1997 data.

3/ It is assumed that the amounts in escrow earn a rate of return of 5 percent in SDR terms. Actual interest earnings may be higher or lower. Interest used will be accumulated through the calendar year and used toward payment of the last repayment obligation falling due in that year.

4/ In percent of current year exports of goods and services.

Table 5. Bolivia: NPV of Debt and NPV of Debt-to-Exports Ratio, End-December 1997 1/

(In millions of U.S. dollars, unless otherwise noted)

	Sept. 1998 Est. 1997	Sept. 1997 Proj. 1997
Total	3,295	3,405
Multilateral	2,134	2,190
IMF	198	223
World Bank	429	442
IDB	1,159	1,154
Other	349	371
Of which		
CAF	254	265
IFAD	24	28
OPEC	10	12
FONPLATA	56	59
BIAPE	2	2
Nordic Fund	2	3
Official bilateral	1,145	1,193
Paris Club	1,104	1,158
Pre-cutoff date debt	664	684
Of which		
ODA	342	349
Post-cutoff date debt	440	474
Non-Paris Club	42	46
Of which		
Reschedulable	12	9
Other creditors	15	11
NPV of debt-to-exports ratio before assistance (in percent)	252	259
HIPC assistance (in millions of U.S. dollars)	448	448
NPV of debt-to-exports ratio after assistance (in percent)	218	225
Memorandum items:		
Exports of goods and nonfactor services 2/	1,306	1,314
Main discount rates (in percent)		
U.S. dollar	7.3	7.7
Special Drawing Rights	6.1	6.5
Japanese yen	2.5	3.0
Deutsche mark	5.9	6.4
Main exchange rates (in units per currency in the denominator)		
U.S. dollar/Special Drawing Rights	1.35	1.43
Japanese yen/U.S. dollar	130.11	116.00
Deutsche mark/U.S. dollar	1.79	1.55

Sources: Central Bank of Bolivia; and Bank/Fund staff estimates.

1/ The NPV of debt was calculated on a loan-by-loan basis, using end-1997 exchange rates and the six-month average CIRR ending December 1997.

2/ Three-year backward-looking average.

Table 6. Bolivia: Long-term Balance of Payments, 1995-2017

(In millions of U.S. dollars, unless otherwise noted)

			Est.	Projections																			
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Current account	**-335**	**-385**	**-647**	**-702**	**-650**	**-596**	**-576**	**-511**	**-528**	**-587**	**-641**	**-720**	**-776**	**-876**	**-904**	**-976**	**-1,050**	**-1,130**	**-1,214**	**-1,305**	**-1,400**	**-1,502**	**-1,603**
Trade balance	-301	-447	-684	-721	-553	-446	-310	-199	-192	-172	-149	-156	-178	-201	-218	-236	-258	-283	-311	-340	-373	-408	-447
Exports, f.o.b.	1,075	1,132	1,166	1,189	1,276	1,423	1,635	1,841	2,013	2,183	2,382	2,576	2,770	2,979	3,204	3,446	3,702	3,979	4,275	4,594	4,937	5,305	5,700
Of which: gas	92	95	69	85	85	113	128	146	162	181	197	213	229	247	265	285	307	329	354	380	409	439	472
Imports, c.i.f.	-1,376	-1,578	-1,851	-1,910	-1,829	-1,869	-1,945	-2,040	-2,205	-2,355	-2,531	-2,732	-2,948	-3,180	-3,421	-3,681	-3,961	-4,262	-4,586	-4,934	-5,309	-5,713	-6,147
Of which: from capitalization	-5	-201	-245	-252	-238	-172	-116	-65	-57	-23	0	0	0	0	0	0	0	0	0	0	0	0	0
Factor income, (net)	-221	-169	-212	-245	-338	-382	-490	-539	-570	-655	-747	-835	-887	-946	-1,013	-1,088	-1,164	-1,244	-1,329	-1,420	-1,515	-1,617	-1,688
Of which: interest due	-222	-179	-212	-231	-239	-243	-260	-266	-261	-262	-262	-279	-288	-304	-323	-348	-370	-394	-420	-447	-474	-502	-510
Official transfers 1/	202	225	187	200	196	172	146	132	125	116	116	116	116	116	116	116	116	116	116	116	116	116	116
Other	-15	6	62	64	45	60	78	95	109	124	139	155	172	156	211	233	256	282	310	340	372	408	446
Capital account	**257**	**727**	**750**	**677**	**613**	**567**	**584**	**555**	**593**	**665**	**729**	**787**	**845**	**945**	**974**	**1,047**	**1,122**	**1,202**	**1,286**	**1,379**	**1,474**	**1,575**	**1,676**
Capital transfers	11	45	25	7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Public sector loans	79	239	205	107	176	93	103	132	164	176	187	200	210	196	192	158	169	180	192	213	222	241	285
Disbursements	379	395	371	327	359	289	311	350	392	419	438	460	484	495	517	515	549	584	619	672	717	770	814
Amortization	-301	-155	-131	-162	-147	-162	-174	-189	-206	-224	-236	-254	-268	-289	-315	-347	-373	-397	-421	-453	-489	-523	-554
Amortization due by capitalized enterprises	0	0	-35	-58	-35	-34	-34	-29	-22	-20	-15	-6	-6	-9	-9	-9	-6	-6	-6	-6	-6	-6	-6
Private sector loans	30	18	209	176	-21	126	83	5	-62	-110	-175	-115	-61	-18	18	25	27	29	31	33	36	38	47
Disbursements	67	52	277	270	161	345	382	330	277	232	155	186	200	215	231	249	267	287	309	332	357	383	412
Amortization	-37	-33	-68	-94	-182	-219	-299	-324	-339	-342	-330	-301	-262	-234	-214	-224	-241	-259	-278	-299	-321	-345	-365
Private capital and other 2/	138	424	312	412	526	417	461	463	527	632	744	725	717	788	784	883	944	1,011	1,081	1,149	1,232	1,312	1,391
Of which: direct investment	177	426	591	623	638	622	617	557	590	610	626	676	730	789	851	934	1,009	1,089	1,176	1,270	1,372	1,481	1,599
Of which: net investment from capitalization	5	262	307	315	298	215	145	81	71	29	0	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance	**-79**	**342**	**103**	**-25**	**-37**	**-29**	**8**	**45**	**65**	**78**	**87**	**67**	**69**	**70**	**71**	**71**	**72**	**72**	**72**	**74**	**74**	**73**	**72**
Exceptional financing	**202**	**0**	**0**	**25**	**67**	**69**	**62**	**45**	**35**	**32**	**28**	**23**	**21**	**20**	**19**	**19**	**18**	**18**	**18**	**16**	**16**	**17**	**18**
Agreed debt relief 3/	202	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in arrears (net)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Argentina (exceptional payment)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Assumed assistance under HIPC Initiativ	0	0	0	25	67	69	62	45	35	32	28	23	21	20	19	19	18	18	18	16	16	17	18
Net international reserves (increase -)	**-123**	**-342**	**-103**	**0**	**-30**	**-40**	**-70**	**-90**	**-100**	**-110**	**-115**	**-90**	**-90**	**-90**	**-90**	**-90**	**-90**	**-90**	**-90**	**-90**	**-90**	**-90**	**-90**

Table 6. Bolivia: Long-term Balance of Payments, 1995-2017

			Est.	Projections																			
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Memorandum items:																							
Gross reserves, (end-of-period)	737	1,125	1,192	1,032	1,073	1,135	1,198	1,264	1,346	1,433	1,523	1,585	1,647	1,705	1,771	1,847	1,935	2,025	2,115	2,205	2,295	2,385	2,475
(in months of imports)	5.6	7.3	7.5	6.8	6.9	7.0	7.0	6.9	6.9	6.8	6.7	6.5	6.2	6.0	5.8	5.6	5.4	5.3	5.1	5.0	4.8	4.7	4.5
Debt relief from stock-of-debt operation	0	130	93	99	88	58	54	59	57	50	32	29	24	21	17	13	11	5	4	0	0	0	0
Interest relief	0	33	17	21	20	17	15	14	12	10	8	7	5	4	2	0	0	0	0	0	0	0	0
Amortization relief	0	97	76	77	68	41	38	46	46	41	24	22	19	17	15	14	13	10	4	0	0	0	0
Gas export price (US$/1,000 cu.ft)	1.27	1.30	1.21	1.18	1.18	1.09	1.09	1.10	1.10	1.11	1.13	1.14	1.16	1.17	1.19	1.21	1.22	1.24	1.26	1.28	1.29	1.31	1.33
GDP	6,688	7,500	7,968	8,558	9,233	9,932	10,574	11,667	12,761	14,026	15,075	16,204	17,416	18,720	20,121	21,627	23,245	24,985	26,855	28,865	31,025	33,347	35,842
Exports of goods and services	1,239	1,318	1,362	1,422	1,572	1,684	1,910	2,174	2,401	2,630	2,871	3,102	3,329	3,574	3,836	4,118	4,421	4,747	5,097	5,472	5,876	6,309	6,775
Exports of goods and services (3 yr ave.)	1,096	1,238	1,306	1,367	1,452	1,559	1,722	1,923	2,162	2,402	2,634	2,868	3,101	3,335	3,580	3,843	4,125	4,429	4,755	5,105	5,481	5,886	6,320
										(In percent)													
Export volume growth	11.2	3.0	5.0	11.1	5.9	10.1	13.3	10.8	6.8	7.0	7.5	6.6	6.0	6.0	6.1	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Import volume growth	-1.0	18.4	22.2	5.7	-4.5	1.9	3.6	3.9	7.0	5.4	6.0	6.5	6.4	6.4	6.1	6.0	6.0	6.0	6.1	6.1	6.1	6.1	6.1
Terms of trade change	-10.2	5.0	2.2	-6.0	1.1	1.0	0.9	0.7	1.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
										(In percent of GDP)													
Current account deficit	-5.0	-5.1	-8.1	-8.2	-7.0	-6.0	-5.5	-4.4	-4.1	-4.2	-4.3	-4.4	-4.5	-4.7	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5
Merchandise exports	15.9	15.1	14.6	13.9	13.8	14.3	15.5	15.8	15.8	15.6	15.8	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9
Merchandise imports	20.3	21.0	23.2	22.3	19.8	18.8	18.4	17.5	17.3	16.8	16.8	16.9	16.9	17.0	17.0	17.0	17.0	17.1	17.1	17.1	17.1	17.1	17.2
Of which: capitalization and pipeline	0.1	2.7	4.4	4.8	2.6	1.7	1.1	0.6	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants and loans 4/	8.6	8.3	7.0	6.2	6.0	4.6	4.3	4.1	4.1	3.8	3.7	3.6	3.4	3.3	3.1	2.9	2.9	2.6	2.5	2.7	2.7	2.7	2.6
										(In percent of exports of goods and services)													
Baseline																							
NPV of debt before HIPC assistance 5/	...	270.2	252.3	247.2	239.2	225.6	209.1	192.9	178.8	168.2	160.2	154.5	150.3	146.2	142.5	137.8	133.7	129.8	126.0	122.5	119.0	115.7	112.5
NPV of debt after HIPC assistance 5/	...	...	218.0	214.6	211.4	202.8	191.0	178.2	166.6	158.0	151.4	146.8	143.5	140.2	137.1	133.0	129.4	126.0	122.7	119.6	116.5	113.5	110.3
Debt service before HIPC assistance	...	...	26.1	24.8	23.1	22.1	20.1	18.1	16.9	16.6	16.0	15.7	15.4	15.6	15.5	15.4	15.0	14.9	14.7	14.7	14.7	14.6	14.1
Debt service after HIPC assistance	...	...	26.1	23.0	18.8	18.0	16.8	16.1	15.5	15.4	15.0	15.0	14.7	15.1	15.0	14.9	14.6	14.5	14.3	14.4	14.4	14.3	13.9

Sources: Central Bank of Bolivia and staff estimates.

1/ Excludes grants for debt-reduction operations.

2/ Includes direct investments, commercial bank short-term capital flows, and errors and omissions.

3/ Granted by Paris Club creditors and Brazil.

4/ Official transfers and loans to public sector.

5/ Export denominator is calculated as a backward looking three-year average.

Table 7. Bolivia: Sensitivity of the NPV of Debt/Exports and Debt Service/Exports Ratios, Selected Years 1/

(Period averages)

	Baseline	Lower Metal Prices 2/	More Commercial Borrowing 3/
I. NPV of Debt/Exports (after HIPC) 4/			
1997	218.0	218.0	218.0
1998	214.6	220.1	218.2
1999	211.4	228.3	219.0
2000	202.8	230.1	213.0
2001-05	169.5	194.2	183.5
2006-10	140.5	158.6	145.4
2011-16	121.5	136.4	125.8
II. Debt Service/Exports (after HIPC) 5/			
1997	26.1	26.1	26.1
1998	23.0	24.2	23.1
1999	18.8	21.1	19.8
2000	18.0	20.3	20.0
2001-05	15.8	18.7	19.5
2006-10	14.9	17.4	19.6
2011-16	14.4	16.2	18.4

Sources: Central Bank of Bolivia; and staff estimates.

1/ Before and after HIPC assistance.

2/ Metal export prices are reduced by a cumulative 25 percent over the 1998-99 period. After the initial decline, metal export prices rise as in the baseline. It is assumed that the government borrows to cover half of the shortfall for the first three years. The extra borrowing carries market interest rates, with maturity of 11 years and 3-year grace.

3/ Concessional borrowing is reduced by 25 percent throughout the whole period, while keeping the net external financing of the public sector unchanged. The implied additional borrowing is undertaken on commercial terms with a 5 year maturity and 1 year grace period.

4/ In percent of three-year exports of goods and services averages.

5/ In percent of current year exports of goods and services.

Table 8. Total Expenditure for Health, Education, and Debt Service, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
	(In millions of U.S. dollars)						
Total social sector spending 1/	602.5	750.1	857.5	968.0	1065.5	1153.2	1226.3
Of which							
Health 2/	175.1	203.1	222.8	260.5	283.0	305.1	324.8
Education	388.0	451.7	471.0	521.1	566.2	613.7	651.6
Basic sanitation	39.6	60.7	83.5	99.1	115.1	124.7	132.8
Rural development	...	34.8	80.1	87.3	101.2	109.7	116.8
Total HIPC assistance 3/	0.0	0.0	0.0	24.8	66.9	68.6	61.6
Net official aid flows 4/	617.0	714.2	606.3	579.3	599.4	507.2	479.8
Of which							
Grants	212.1	270.8	212.6	206.9	195.7	172.0	146.0
Debt service paid 5/	330.4	349.6	360.0	...	...	...	...
	(In percent of GDP, unless otherwise noted)						
Total social sector spending 1/	9.0	10.0	10.8	11.3	11.5	11.6	11.6
Of which							
Health 2/	2.6	2.7	2.8	3.0	3.1	3.1	3.1
Education	5.8	6.0	5.9	6.1	6.1	6.2	6.2
Basic sanitation	0.6	0.8	1.0	1.2	1.2	1.3	1.3
Rural development	...	0.5	1.0	1.0	1.1	1.1	1.1
Total HIPC assistance 3/	0.0	0.0	0.0	0.3	0.7	0.7	0.6
Net official aid flows 4/	9.2	9.5	7.6	6.8	6.5	5.1	4.5
Of which							
Grants	3.2	3.6	2.7	2.4	2.1	1.7	1.4
Debt service paid 5/	4.9	4.7	4.5	...	...	...	...
Memorandum items:							
Debt service due before HIPC 5/	7.9	4.7	4.5	4.1	3.9	3.7	3.6
Debt service due after HIPC 5/	7.9	4.7	4.5	3.8	3.2	3.1	3.0
GDP (in millions of U.S. dollars)	6,688	7,500	7,968	8,558	9,233	9,932	10,574

Sources: Central Bank of Bolivia; Ministry of Finance; and Bank/Fund staff estimates.

1/ Reflects debt service savings from HIPC assistance.

2/ Includes local government and project executing agencies.

3/ Includes assistance provided by the Fund.

4/ Comprises net official transfers and net official disbursements, including from the Fund. Excludes assistance under the HIPC Initiative.

5/ Reflects December 1995 Paris Club stock-of-debt operation, public and publicly guaranteed debt only.

Table 9. Bolivia: Medium- and Long-Term External Public
and Publicly Guaranteed Debt, 1997-2017 1/
(before HIPC relief)

	Prel. 1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Projections 2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
									(In millions of U.S. dollars, NPV terms)												
Total	3,295	3,380	3,473	3,517	3,601	3,710	3,865	4,040	4,220	4,429	4,662	4,877	5,100	5,297	5,515	5,749	5,990	6,253	6,525	6,812	7,109
Multilateral	2,134	2,199	2,275	2,313	2,396	2,507	2,672	2,857	3,050	3,275	3,523	3,754	3,995	4,213	4,450	4,702	4,962	5,246	5,542	5,856	6,176
IMF	198	185	196	209	206	186	169	147	121	90	67	37	15	2	0	0	0	0	0	0	0
World Bank	429	482	538	578	625	707	827	979	1,143	1,310	1,481	1,644	1,806	1,952	2,100	2,251	2,406	2,574	2,748	2,932	3,122
IDB	1,159	1,171	1,180	1,180	1,239	1,314	1,403	1,481	1,550	1,636	1,733	1,828	1,926	2,009	2,099	2,201	2,308	2,425	2,547	2,678	2,807
Other	349	360	361	346	327	300	272	250	237	239	242	245	248	250	250	250	249	248	247	247	247
Official Bilateral	1,145	1,169	1,189	1,198	1,201	1,200	1,191	1,180	1,167	1,152	1,136	1,120	1,102	1,082	1,063	1,045	1,026	1,005	982	955	933
Paris Club	1,104	1,121	1,134	1,138	1,137	1,132	1,122	1,109	1,093	1,077	1,059	1,042	1,023	1,001	982	962	940	917	891	861	834
Pre-cutoff date debt	664	665	666	666	666	664	662	659	656	654	651	648	643	638	631	620	606	589	569	547	521
Of which: ODA	342	342	341	341	340	340	339	339	339	338	338	338	337	337	337	337	335	331	327	322	317
Post-cutoff date debt	440	456	468	472	471	468	460	449	437	423	408	394	379	364	351	341	335	328	321	314	313
Non-Paris Club	42	48	54	60	64	67	69	71	73	75	77	79	80	81	82	84	86	88	91	95	99
Of which: reschedulable	12	13	14	15	16	17	19	20	21	25	26	28	30	33	35	37	40	43	46	50	0
Other	15	12	9	7	4	3	3	3	3	2	2	2	2	2	2	2	2	1	1	1	0
									(NPV of debt in percent of three-year moving average of exports of goods and services)												
Total	252.3	247.2	239.2	225.6	209.1	192.9	178.8	168.2	160.2	154.5	150.3	146.2	142.5	137.8	133.7	129.8	126.0	122.5	119.0	115.7	112.5
Multilateral	163.4	160.8	156.7	148.3	139.1	130.4	123.6	119.0	115.8	114.2	113.6	112.6	111.6	109.6	107.9	106.2	104.4	102.8	101.1	99.5	97.7
IMF	15.2	13.5	13.5	13.4	11.9	9.7	7.8	6.1	4.6	3.1	2.2	1.1	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	32.8	35.3	37.1	37.1	36.3	36.8	38.3	40.7	43.4	45.7	47.8	49.3	50.5	50.8	50.9	50.8	50.6	50.4	50.1	49.8	49.4
IDB	88.7	85.7	81.3	75.7	72.0	68.3	64.9	61.7	58.8	57.0	55.9	54.8	53.8	52.3	50.9	49.7	48.5	47.5	46.5	45.5	44.4
Other	26.7	26.4	24.8	22.2	19.0	15.6	12.6	10.4	9.0	8.3	7.8	7.4	6.9	6.5	6.1	5.6	5.2	4.9	4.5	4.2	3.9
Official Bilateral	87.7	85.5	81.9	76.8	69.7	62.4	55.1	49.1	44.3	40.2	36.6	33.6	30.8	28.2	25.8	23.6	21.6	19.7	17.9	16.2	14.8
Paris Club	84.5	82.0	78.1	73.0	66.0	58.9	51.9	46.2	41.5	37.5	34.2	31.2	28.6	26.1	23.8	21.7	19.8	18.0	16.2	14.6	13.2
Pre-cutoff date debt	50.8	48.6	45.9	42.7	38.7	34.5	30.6	27.5	24.9	22.8	21.0	19.4	18.0	16.6	15.3	14.0	12.7	11.5	10.4	9.3	8.2
Of which: ODA	26.2	25.0	23.5	21.9	19.8	17.7	15.7	14.1	12.9	11.8	10.9	10.1	9.4	8.8	8.2	7.6	7.1	6.5	6.0	5.5	5.0
Post-cutoff date debt	33.7	33.4	32.3	30.3	27.4	24.3	21.3	18.7	16.6	14.7	13.2	11.8	10.6	9.5	8.5	7.7	7.0	6.4	5.9	5.3	4.9
Non-Paris Club	3.2	3.5	3.7	3.8	3.7	3.5	3.2	3.0	2.8	2.6	2.5	2.4	2.2	2.1	2.0	1.9	1.8	1.7	1.7	1.6	1.6
Of which: reschedulable	0.9	1.0	1.0	1.0	0.9	0.9	0.9	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.0
Other	1.2	0.8	0.6	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Central Bank of Bolivia; and Bank/Fund staff estimates.

1/ After the full implementation of the debt relief granted in the stock-of-debt operation by Paris Club creditors and comparable action by other bilateral and private creditors.

Table 10. Bolivia: Scheduled Debt Service on Medium- and Long-Term External Public and Publicly Guaranteed Debt 1997-2017

	Prel. 1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Projections 2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	(In millions of U.S. dollars, unless otherwise indicated)																				
Debt service due 1/	356	352	363	372	383	394	407	437	460	487	512	558	595	634	665	705	749	802	861	920	981
Principal	200	204	218	229	241	250	256	275	285	297	304	331	349	370	383	404	427	459	495	529	569
Multilateral	188	189	185	183	179	174	160	149	128	110	93	90	87	87	83	75	68	66	65	62	61
IMF	34	40	33	30	31	29	26	25	18	11	4	0	0	0	0	0	0	0	0	0	0
World Bank	19	20	21	21	13	14	15	17	18	19	21	24	26	27	30	32	33	33	34	35	35
IDB	68	78	79	84	90	87	83	81	74	74	64	63	59	58	52	42	35	32	30	26	25
Other	67	51	52	48	45	45	36	26	20	6	4	3	2	2	1	1	1	1	1	1	1
Official bilateral	9	12	22	28	34	37	42	41	42	42	40	38	39	40	37	38	38	40	42	44	47
Paris Club	7	9	18	24	30	33	36	38	38	39	38	37	38	39	37	37	37	39	42	44	47
Pre-cutoff date debt	1	0	1	2	3	4	5	5	6	6	6	7	8	9	11	15	19	21	24	27	31
Non-Naples	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Naples	0	0	1	2	3	4	5	5	6	6	6	7	8	9	11	15	19	21	24	27	31
Post-cutoff date debt	6	9	17	23	27	28	31	32	32	33	32	30	30	29	26	22	18	18	18	17	16
Non-Paris Club	2	3	3	3	4	4	6	3	3	2	2	1	1	1	1	1	0	0	0	0	0
Other	3	3	3	3	3	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
New debt	*0*	*0*	*9*	*16*	*26*	*38*	*53*	*86*	*115*	*145*	*170*	*203*	*223*	*243*	*262*	*291*	*321*	*353*	*388*	*422*	*461*
Of which: multilaterals	0	0	9	16	24	32	43	74	102	130	155	188	183	212	242	273	303	334	368	402	440
Interest	156	149	145	143	142	144	151	162	174	190	208	227	246	264	282	301	321	343	366	391	413
Multilateral	105	101	88	78	69	60	51	44	37	33	29	26	22	20	17	14	13	12	11	10	9
IMF	1	1	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
World Bank	15	9	8	8	7	7	7	6	6	6	6	6	6	5	5	5	5	5	4	4	4
IDB	61	63	58	53	48	42	37	33	28	26	23	20	17	14	11	9	8	7	6	6	5
Other	28	27	21	17	14	10	7	4	2	1	1	0	0	0	0	0	0	0	0	0	0
Official Bilateral	49	41	40	40	39	37	36	35	34	33	32	31	30	28	27	26	25	23	22	21	19
Paris Club	48	41	39	39	38	37	36	35	34	33	32	31	30	28	27	26	25	23	22	21	19
Pre-cutoff date debt	31	26	25	26	25	25	25	25	25	24	24	24	23	23	23	22	21	20	19	18	17
Non-Naples	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Naples	30	26	25	25	25	25	25	25	25	24	24	24	23	23	23	22	21	20	19	18	17
Post-cutoff date debt	17	15	14	14	13	12	11	10	10	9	8	7	6	5	5	4	3	3	3	2	2
Non-Paris Club	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	*1*	*1*	*1*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
New debt	0	5	16	25	34	47	64	83	103	123	147	170	194	216	238	261	284	308	334	361	385
Of which: multilaterals	0	5	14	22	31	43	59	77	97	117	139	162	186	208	230	252	275	299	324	351	376

Sources: Central Bank of Bolivia; and Bank/Fund staff estimates.

1/ After the full implementation of the debt relief provided in the stock-of-debt operation by Paris Club creditors, and comparable action by other bilateral and private creditors.

HIPC Initiative: Status of Country Cases

Country (in order of expected decision point within groups)	Decision point	Completion point	NPV of debt-to-export target (in percent)	Assistance at completion point (US$ millions, present value at completion point)					Percentage reduction in NPV of debt 1/	Estimated total nominal debt service relief (in US$ mn.)	Satisfactory assurances from other creditors
				Total	Bilat-eral	Multi-lateral	IMF	World Bank			
Bolivia	Sep. 97	Sep. 98	225	448	157	291	29	54	13	760	Received
Completion point reached:											
Uganda	Apr. 97	Apr. 98	202	347	73	274	69	160	20	650	Received
Decision point reached and assistance committed by Fund and Bank:											
Burkina Faso	Sep. 97	Apr. 00	205	115	21	94	10	44	14	200	Being sought
Guyana	Dec. 97	Feb. 99	107 2/	253	91	161	35	27	25	500	Being sought
Côte d'Ivoire	Mar. 98	Mar. 01	141 2/	345	163	182	23	91	6 3/	800	Being sought
Mozambique	Apr. 98	mid-99	200	1,442	877	565	105	324	57	2,900	Being sought
Total assistance provided/committed (6 countries)				2,950	1,382	1,567	271 4/	700	19	5,810	...
Preliminary HIPC document issued; targets based on majority view in preliminary discussions at Bank and Fund Boards, assistance based on preliminary HIPC documents and subject to change 5/											
Guinea-Bissau	first half 99	2002	200	300	148	153	8	73	...	...	...
Mali	Sep. 98	Dec. 99	200	128	37	90	14	44	10	250	...
Debt judged sustainable:											
Benin	Jul. 97	...	...	...	...	...	...	...	...	...	...
Senegal	Apr. 98	...	...	...	...	...	...	...	...	...	...

Sources: Fund and Bank Board decisions, completion point document, final HIPC documents, preliminary HIPC documents, and staff calculations.

1/ In percent of NPV of debt at completion point, after full use of traditional debt relief mechanisms.
2/ Eligible under fiscal/openness criteria; NPV of debt to exports target chosen to meet NPV of debt-to-revenue target of 280 percent.
3/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, are excluded from the NPV of debt at the completion point in the calculation of this ratio.
4/ Equivalent to SDR 200 million.
5/ Debt situation needs to be revisited once the current conflict has ended and a new recovery program agreed.

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Policy Action	Verifiable Indicator	Quantitative Targets	Completed/In Progress	Observations
A. Education				
1. Increase public expenditures on basic education (primary and secondary), especially nonsalary expenditures.	Targets for total expenditures on primary and secondary education/GDP	Base 3.1 percent 1997 3.3 percent 1998 3.5 percent 1999 3.9 percent	Yes for 1997	The targets were set up to the year 2000. The goal was met for 1997 but preliminary data in 1998 suggests the target may not be met. This issue will be addressed in the context of an IDB sector loan in preparation.
	Establish targets for nonsalary basic education expenditures		Yes (in progress)	The government presented the following targets for nonsalary basic education expenditures: Base: Bs 94.5 million; 1997: Bs 99.6 million; 1998: Bs 95.5 million; 1999: Bs 223.6 millions; 2000: Bs 319.7 million. These will be reviewed in the context of an IDB sector loan to insure the amounts necessary for the Educational Reform Projects I and II.
2. Develop a plan for reducing expenditures on higher education as a share of total education expenditures.	To be completed by end 1997		No (in progress)	The authorities are working in this direction but this issue faces political constraints. The ministry of education is developing a proposal to introduce competitive funds to improve quality in universities. Eventually this should lead to the discussion of a new formula of resource allocation.
3. Improve coverage of basic education in rural areas, specially for females.	• Targets for rural ratios for males and females	• Males Base 66 percent 1997 67 percent 1998 69 percent • Females Base 54 percent 1997 56 percent 1998 60 percent	Yes Yes	• The male rural enrollment figure for 1997 was 66.7 percent based on a preliminary enrollment list from March 1998. • The female enrollment figure for 1997 was 56.8 percent with the same caveat as above.
	Develop by end 1997 and start Implementing (mid-1998) a plan to improve access of girls in rural areas to basic education		No (in progress)	• Due to delays, a plan was developed in 1998 based on a May 1997 diagnostic and implementation is estimated to begin in 1999.
4. Increase number of children that complete primary education	Targets for number of children that complete 5th grade in urban an rural areas	• Urban Base 86,000 1997 88,000 1998 99,000 • Rural Base 60,000 1997 63,000 1998 66,000	Yes Yes	• The observed value is 87,000. It is based on the preliminary enrollment list from March 1998. • The observed value is 63 thousand (same as the target). It is based on the preliminary enrollment list from March 1998.

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Policy Action	Verifiable Indicator	Quantitative Targets	Completed/In Progress	Observations
	Targets for number of females that complete 5th grade in urban and rural areas.	Urban Base 41,000 1997 43,000 1998 46,000 Rural Base 29,000 1997 30,000 1998 32,000	Yes Yes	• The observed value is 43 thousand (same as the target). It is based on the preliminary enrollment list from March 1998. • The observed value is 30 thousand (same as the target). It is based on the preliminary enrollment list from March 1998.
5. Improve quality of basic education.	Targets for number of beneficiary schools implementing quality improvements.	Cumulative number of beneficiary schools in quality improvement programs (such as PASE, PIME,, and PIE) Base NA 1997 9,000 1998 15,221	No	The targets were set in accordance to the PASE, PIE, y PIME programs. However, the current administration has discontinued these programs. The programs lacked appropriate financing, andthere were problems with justification of spending by municipal governments. The ministry of education is planning to replace the above with educational projects included in the Educational Reform II loan of the World Bank.
	Development of an action program for continued implementation of school-level quality improvement programs.		Yes	The plan has been drafted with cost estimates and it relates to the educational projects included in the Educational Reform Project II of the World Bank.
	Strategy to provide a minimum of textbooks to all students primary and secondary education to be developed by mid-1998		Yes/No	• The strategy for primary education has been formulated and is currently being implemented. • The studies to begin Secondary Educational Reform will begin in 1999. Authorities determined that it was not appropriate to distribute the texts before the reform strategy was formulated.
	Establish national assessment system by end 1997, including an analysis and publication of the results of the baseline.		Yes	The system (SIMECAL) was published in February of 1998. A summary of achievements can be found in ARendimientos Escolares de 3o y 6o de Educación Primaria en Lenguaje y Matemática y Factores Asociados. It has probably been the most successful plan of educational reform. It has established a link between nutritional levels and achievement.
6. Improve access to early childhood education.	Establish a policy and institutional framework for early childhood development program		Yes (in progress)	The policies for early childhood development were approved through the Secretarial Resolution No. 285/97 and are included in the document Políticas de Educación Inicial. The institutional framework is in the process of being defined.
	Targets for number of children (age 6 and under) in early child hood development program.	Base 43,667 1997 50,000 1998 80,000	No	The targets were set in relation to children covered by the PAN program. However, a change in budget commitments has reduced the scope of the program. Preliminary information indicates that for 1997 the figure was 43,013 and 55,144 for 1998. The institutional framework for the PAN program was not properly defined. Authorities suggest that due to budgetary restrictions, the targets until the year 2000 should be revised.

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Policy Action	Verifiable Indicator	Quantitative Targets	Completed/In Progress	Observations
7. Adapt education reform to popular participation and decentralization.	Enact modifications to education reform regulations by mid-1998		No	The ministry of education will be adapting the educational reform with the recently approved law of Administrative Decentralization and Popular Participation. The ministry is drafting a proposal which will transfer the administration of basic education to municipal governments. A pilot program with 30 municipalities will begin in 1999.
B. Health				
1. Develop a national health strategy in the context of decentralization that improves sector financing.	Strategy to be developed by end 1997 and implementation initiated by mid 1998		Yes (late)	A final version of the national action plan was published (PES) in April 1998. It is consistent with the decentralization context; there are preliminary cost estimates; and implementation is expected to begin in the second half of 1998.
	Proposal presented for health system financing mechanism by mid 1998 and implementation by system initiated by end 1998		No (in progress)	This is being covered by the PES. In addition, World Bank and IDB projects under preparation address some of these issues.
	Proposal presented for new health care delivery system in all sized municipalities by mid-1998		No (in progress)	A proposal is being developed for a basic municipal health mechanism which is being implemented as a pilot in 11 municipalities.
2. Increase public expenditures on health.	Establish targets for public expenditure on health		No	Preliminary estimates show that spending as a percentage of GDP has fallen since 1996. The budgeted numbers as a percentage of GDP are: 1.36 percent in 1996 1.30 percent in 1997 1.36 percent in 1998
3. Improve access and coverage of maternal and child health care services.	Targets for share of births attended by trained staff	Percent of births attended by health professionals in the framework for the mother and childhood national insurance program (SNMN) Base 30 percent 1997 45 percent 1998 58 percent	Yes	• Authorities calculated that actual numbers for 1996 was 30 percent and for 1997 43.6 percent. Professional "parteras" were not included in the numerator of this indicator. • For all of the health quantitative indicators below, there is a fundamental problem because the ministry of health uses a different fertility rate from INE.

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Policy Action	Verifiable Indicator	Quantitative Targets	Completed/In Progress	Observations
	Targets for children treated for respiratory diseases and diarrhea	• Share of children (age 5 and under) treated for acute respiratory infection in the framework of the SNMN) Base 25 percent 1997 43 percent 1998 50 percent	Yes	• A recalculation of the base year indicates that the percentage of children treated in 1996 was 37 percent. And for 1997 it was 69 percent. The improvement obtained is of the same order of magnitude and at a higher level. The denominator, the expected pneumonia cases, was estimated to be 10 percent of children under the age of 5.
		• Share of children treated for acute diarrhea (EDA) in the framework of SNMN) Base 25 percent 1997 25 percent 1998 36 percent	Yes	• The base year was recalculated. The observed value for 1996 was 20 percent and for 1997 it was 26.2 percent showing more improvement than the indicator prescribed. The two indicators will need to be reviewed for methodological discrepancies in the calculation.
	Targets for children (under 5) completing vaccinations cycle	Percent of children under 5 that have completed the vaccination cycle (such as polio, DPT, measles, BCG) appropriate for their age group. Base 78 percent 1997 80 percent 1998 82 percent	Yes	There is no reliable data for vaccination cycles. The ministry of health suggests using the BCG vaccination because it is the last one in the cycle. Nevertheless, there is data for the main vaccines which are reported below and exceed HIPC targets. Vaccine 1996 1997 Polio 76 percent 83 percent DPT 76 percent 83 percent BCG 90 percent 93 percent Sarampion 87 percent 78 percent (which does not meet the HIPC target by a small margin)

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Policy Action	Verifiable Indicator	Quantitative Targets	Completed/In Progress	Observations
4. Reduce incidence of endemic diseases, including Chagas and malaria.	Targets for pregnant women and endemic areas undergoing Chagas tests	Percent of pregnant women in endemic areas having Chagas tests within the framework of the SNMN Base 0 1997 13 percent 1998 40 percent	No	There has been no progress in this program because it was considered inconvenient to implement (the test is easy and inexpensive but the lab work has to be done in a city making it impractical). Authorities suggest eliminating this indicator in the future in light of the fact congenital transmission of Chagas is minor. Greater efforts in fumigation are recommended.
	Targets for number of houses improved/protected against Chagas in endemic areas	Share of houses receiving improvements against Chagas in endemic areas Base 8 percent 1997 14 percent 1998 25 percent	Yes	C In 1996, 41,600 houses were protected against Chagas resulting in a base of 8 percent. In 1997 the indicator reached 13.4 percent just short of the HIPC target. There were implementation problems due to decentralization of responsibilities to Prefecturas. C Regardless of whether target is met or not, it is worth noting that there is a 500,000 houses deficit. There is currently a capacity to fumigate 60,000 per year which means that at this rate the deficit will not be covered in less that 9 years.
	Targets for prevalence of malaria affected areas	Share of annual parasite index (IPA) in malaria areas (in thousands) Base NA 1997 35.2 1998 20.0	Yes	The targets in this indicator were probably pessimistic with the actual base much lower than the target for 1997 (lower number is improvement). The observed numbers are: 1996 20.7 1997 15.3
C. Rural and development and the fight against poverty				
1. Improve monitoring of expenditures and outcomes in social sectors and rural development.	Database and monitorable indicators for rural development and poverty alleviation to be developed by mid-1998		Yes (in progress)	INE and UDAPE are designing an integrated system (Sistema Integrado de Indicadores Sociales y Análisis de Políticas Sociales, SISAPS). It is and will continue to be work in progress.
	Effective system to be put in place at the central (end-1997) prefectura (end-1998) and municipal (end-1999) levels for monitoring of public social expenditures		Yes (in process)	At a national level, UDAPE is in charge of this work. At the end of 1997 UDAPE received additional resources to monitor public spending at a national level. The INE and the Ministry of Hacienda are in charge of monitoring public expenditures at the Prefectura and Municipal level (the system will be effective at the end of 1998).
	UDAPSO's role in monitoring social expenditures and poverty to be reviewed and strengthened by end 1997		Yes (in progress)	• UDAPE has taken the task originally assigned to UDAPSO. UDAPE has estimated poverty indicators at the municipal and urban level.
2. Establish a clear policy and strategy for social and rural development funds.	To be completed by March 1998 and new system introduced thereafter		Yes (in progress)	The Ministerio de la Presidencia has presented a proposal for a "Decreto Supremo" which creates the COPCOFIN (Consejo de Políticas de Cofinanciamiento). The proposal seeks to improve spending efficiency.

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Policy Action	Verifiable Indicator	Quantitative Targets	Completed/In Progress	Observations
3. Provide rural communities with basic services infrastructure.	Targets for number of beneficiaries of rural/peri-urban basic water and sanitation projects	Number of beneficiaries of rural and peri-urban basic water and sanitation projects Base 132,000 1997 132,000 1998 132,000	Yes	In 1997, new beneficiaries for sanitation reached 15,327 and 172,552 for drinking water summing a total of 187,879 which includes projects financed by the IDB. Authorities suggest disaggregating this indicator as shown above.
	Targets for investment in rural road improvements/rehabilitation	Base US$32 million 1997 US$32 million 1998 US$42 million	Yes	These investments are included in the Programa de Inversión Pública en Caminos Vecinales. The sum for 1997 was US$39.4. The central government and prefecturas invested US$27.6 million while municipalities invested US$11.8 million.
4. Strengthen the land tenure system, improve land distribution and improve agricultural research.	Targets for number of hectares subject to catastro and title regularization	Number of hectares subject to cadastre and titling regulations (in millions) Base 0.33 1997 1.6 1998 3.5	Yes	• The Land Administration Project of the World Bank, Danish and Dutch cooperation chose the most difficult rural areas. This program covered 3.7 million hectares. • The Spanish-sponsored CAT-SAM project, allows them to meet the target of 1.6 million hectares. The SAN-SIM Project will cover 0.23 million hectares and the TCO Project will cover 11.7 million hectares. In total the number of hectares reaches 13 million.
	Real Estate Registry Law to be presented to Congress by end-1998		Yes	The Ley del Registro Público de Derechos Reales was presented to Congress in April of 1998 and was approved by the Supreme Court.
	Competitive agricultural research and extension system to be developed by end-1997		No	The Ministry of Agriculture is reformulating the SINTA (Sistema de Innovación Tecnologica) which was prepared with aid from the World Bank. It will now be executed at a departmental level.
5. Establish a policy and framework for providing micro-credits and rural finance.	To be established by March 1998 and introduced thereafter	MH	Yes	The new financial framework has been established. FONDESIF will be in charge of implemeting regulations. Under the *Ley de Propiedad y Credito Popular*, adequate attention is given to micro credit.