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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REVIEW OF THE REPORT

OF THE

UNITED NATIONS MISSION OF TECHNICAL ASSISTANCE

TO

BOLIVIA

January 7, 1952

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Review of the Report

Evaluation of the Report

The Mission's most specific recommendations deal exclusively with institutional reform. Although increase of production is suggested for several commodities, the Mission does not indicate the amount of investment nor whether it is to be made by private or public parties.

Great care has been taken not to infringe upon the functions of technical agencies currently in operation in Bolivia (or under commitment) and problems are frequently delegated to consideration by such agencies. It seems therefore that the Mission directed its efforts primarily toward establishing an administrative environment in which U.N. specialized agencies could render technical assistance with reasonable assurance of the good will of the Bolivian Government.

The practice of delegating problems points to what seems to be a major feature in the Mission's policy, namely that responsibility for decisions affecting allocation of resources has been dispersed rather than centralized. Provision was made in principle for establishment of the central authority necessary to coordinate investment decisions in that the proposed Development Bank is made responsible for statistical reform and national accounts budgeting. However, the establishment of this Bank is likely to be long delayed. No other agency or institution is charged with formulating an investment program. The Mission made no attempt to draw up such a program, ostensibly for want of adequate statistical basis. The group of administrative assistants and experts who were the subject of the Mission's major recommendation were proposed to obtain a working atmosphere of cooperation and agreement through administrative revision, not to formulate the substantive plan required for the optimum allocation of resources. In any case, institutional improvements, especially those relating to Government finances, may eventually in themselves have beneficial effect on the direction of investment in Bolivia.

Personnel and Duration of Mission

The Mission comprised fifteen experts (including the chief of the Mission, Mr. H. L. Keenleyside), in the fields of agriculture, mining, power, transport, public finance, fiscal administration, labor, education and social welfare. A total of 1728 member-days was spent over the months of May-August 1950 and extensive field trips covering most of the country were made.

Function and Objectives of the Mission

Although the Mission was formally directed "to aid the Government of Bolivia in ... drawing up a concrete plan of economic and social development ..., the report contains no development program in detailed financial
terms nor in the form of national accounts. The necessity of formulating such a program eventually is strongly emphasized, however, in recognition of the danger that heavy population increase can dissipate the benefits of social and economic improvements. A quantitative expression of development goals in terms of economic aggregates is therefore included as a basis for long-term policy. Thus a rate of increase of per capita national income at 3-4½% a year, or doubling every 20-25 years, is envisaged for some undefined period in the future on the basis of total annual savings of 20% of national income, which would rise at a rate of 3-6% per annum. Total savings would comprise domestic savings equivalent to 10-15% of national income and capital imports equivalent to at least 5% of the same. In absolute terms, total savings in the initial year of an economic development program period should be equivalent to 3,000 million bolivianos, on the assumption that the U.N. Department of Economic Affairs estimate of Bolivian national income at 15,200 million bolivianos in 1946 holds relatively unchanged. A technique of simple analogy with U.S. and Swedish 19th century economic history was the basis of projection.

Statistical reform takes first priority in the final summary of conclusions and long-term recommendations, underlining the importance of national income analysis in per capita terms as a basis for economic development. Events subsequent to the writing of the Report have made it clear, however, that the order of priority mentioned here is a logical rather than a practical concept. The Mission patently stressed administrative reform as its primary objective.

On the grounds that a visit of four months was insufficient to provide a statistical basis for national income analysis, the Mission confined itself to recommending changes likely to result in immediate practical improvements in the social and economic conditions of the people of Bolivia, and urged reliance on the possibility of "the prolonged and beneficial cooperation of the United Nations and the Specialized Agencies" in all long-term phases of improvement. The principal problem for Bolivia is summarized as failure of the Bolivian people to profit fully from the natural wealth of their country. This paradox is attributed to chronic administrative instability, making for conditions under which entrepreneurs cannot invest with reasonable certainty of return. Although the proposal for integration throughout the Bolivian Government of an international group of foreign administrative assistants is by now well known as the principal achievement of the Keenleyside Mission, this was not the sole dictum of the Mission on administrative matters; all of its recommendations relate directly to institutional reform. Quantitative analysis plays virtually no part in the formulation of proposals. Even where investment is required, the amount and source of funds and the public or private character of the investor are not specified; indeed, in several important proposals, these points are explicitly deferred to future decision (the Development Bank's policy on lending to government entities is an example; see p.52d). It will be noted that the report makes a global estimate of capital imports from abroad, as outlined in the preceding paragraph, but that neither in the quantitative expression of development goals nor in particular recommendations does the report specify the relation of government and private components of capital.
inflow or of total investment. Clear disapproval of Government investment in mining is an exception.

The adoption of administrative reform as the means of establishing an atmosphere of confidence conducive to investment of voluntary savings is regarded as essential to economic development. Inflation-forced saving as a source of funds for financing economic development is rejected as a self-defeating instrument. Monetary stabilization is therefore a pre-eminently important aspect of administrative revision. During the transition to an economy in which voluntary savings predominantly finance investment, while inflation is in process of elimination as the source of savings, investment funds will have to be sought in: (1) budget surpluses and (2) in capital import. The latter is likely always to be important (this admission conflicts with final conclusions) but especially so during the early phase of development. Every effort must be made to obtain budget surpluses, but development projects already started must not be jettisoned simply because a decrease of government expenditures on certain occasions would be instrumental in controlling an inflationary situation.

The emphasis on voluntary savings and on the role of capital imports is conspicuous, and the establishment of an institutional framework of financing by appropriately channeled voluntary savings at the earliest possible date is advised. The existence of funds is not doubted; the Mission believes that a large proportion of bank notes in circulation find their way into small private hoards, and that they will make an important contribution, but empirical evidence would not seem to substantiate such an assumption, nor can it have been based on technical analysis of income distribution. (see p.5,2d)

Outline of Priorities

Reorganization of administrative and economic activity, with a policy of heavy capital importation, is considered the first of three congruous and connected stages in the development program. Social overhead investment with development of mining and agriculture will be characteristic of the first stage. Foreign investment will be gradually tapered in the second stage, and exchange-saving industries will be given importance, especially in agricultural and forestry production and in foodstuffs and raw material processing industries.

The third stage, characterized by a cessation of foreign assistance and capital imports, is not outlined as specifically as the preceding periods, but it is assumed Bolivia's capital needs will be provided internally and that the bulk of measures designed directly to improve social welfare and standards of living will take place in this period. The timing of these stages in relation to the five year appointments of the Administrative Assistants is not clear, nor is any of these stages explicitly related to the quantitative expression of development goals in national income terms set forth above. It is not clear whether the proposed objective of an annual rate of increase of 3 to 4% in per
capita national income is to be achieved during or after, or possibly before the third period.

In general, the Report assigns priorities to social measures on economic grounds, i.e., on the immediacy of their contribution to the increase of productive capacity or of investment trends, because the urgency of social reforms is virtually uniform in all fields and does not offer a basis for priority. Reduction of wasteful expenditures by Government and also of much luxury consumption by private parties is regarded as an essential aspect of the social problem, and is omitted from the discussion of exchange reforms. The expansion of social insurance along the lines of legislation adopted in 1949 is approved specifically because a source of investment funds is thereby provided, although reduction of social and labor legislation to the actually workable minimum is urged. Technical and vocational training are put in the category of social problems, but are recommended for immediate attention for their economic implications. Nevertheless recommendations on education are virtually omitted from this Report since commitments had already been made for technical assistance from UNESCO. Similarly, health and sanitation measures are regarded as the area of relatively independent WHO activities already negotiated.
SUMMARY OF PRINCIPAL SPECIFIC RECOMMENDATIONS OF THE MISSION

The general recommendations of the Mission are summarized in order of priority as: (1) statistical reform towards making possible national income analysis and national economic budgeting; (2) administrative reform, with monetary stabilization an important aspect; and (3) social reform. A summarized list of specific recommendations follows:

1. Administration

(a) Integration of an international group of foreign administrative assistants throughout the Bolivian Government in responsible positions - one assistant for each cabinet portfolio and for the Director of the Budget and Comptroller - under an agreement or contract with the United Nations for five years. A coordinator-general of the group to be of Bolivian nationality and to have cabinet rank.

(b) Establishment of a National Economic Administration comprising the cabinet, high officials of government departments, presidents of principal national financial institutions, the international administrative group, Director of the Budget, Comptroller General, and head of Civil Service Administration. The Administration is to deal solely with crises or questions of fundamental policy, as an agency of last reserve.

(c) Establishment of a non-political, technically-staffed civil service administration headed by a National Council on Public Service whose members shall be appointed by the President of the Republic from nominations by specified government and non-government institutions.

(d) Reorganization of lines of authority to relate activities of government and semi-independent agencies to appropriate ministries.

2. Monetary and Financial Policy

(a) A program of monetary and exchange stabilization (the latter directed towards eliminating subsidy effects which make imports cheaper than domestic products, and tax effects unduly burdening enterprises which are forced to sell exchange at low rates; for monetary reforms, see (e), (f) and (g) below).

(b) Promulgation of an investment code designed to attract foreign investment (Bilateral treaties may be an alternative, or may supplement the code).

(c) Resumption of service on foreign debt.

(d) Establishment of a development bank replacing the development banking functions of the existing commercial department of the Central Bank, the Banco Agricola, the Banco Minero, and the Bolivian Development Corporation. The Bank will function primarily as a source of medium-term
credit (up to 20 years) for self-liquidating projects, and should probably not hold equities or even marketable bonds. The chairman of the Bank should be nominated by the United Nations (no mention is made of foreign nationality). The Bank should operate to stimulate a domestic bond market by issuing bonds repayable in Bolivianos at the highest rate of exchange for the dollar at the time payment is made. (Potential and existing savings which will be channeled through this Bank are estimated as follows: (1) hoarded banknotes, "variously estimated from 500 to 1000 million" out of a total note circulation of 2.5 billion bolivianos in 1950; (2) social security funds, estimated to reach eventually 16% of the total wage bill if legislation enacted in 1949 enters fully in effect; (3) forced sales of exchange by foreign mining companies; (4) workers' bonuses, indemnities and other lump-sum allowances paid under social legislation and custom). Even if voluntary investment in the Bank's bonds does not raise required capital, government financial contribution to the Bank should take the form of bond purchases. "It is an open question whether the Bank's lending would be predominately to private or to semi-public or public enterprise" (p.17, published Report). In order to enable the Bank to serve as an intermediary between the Bolivian and foreign capital markets, the Bank should have an option to buy a percentage of the national gross foreign exchange receipts, which might be resold to the public for increased imports of consumption goods whenever investment for development impinges on consumer supply. The research department of the Bank is to have the continued responsibility for drawing up the proposed national economic budget and "the long-term investment plan", collaborating in all research problems with other appropriate government agencies.

(e) Abolition of the commercial department of the Central Bank, making that agency solely a bank of issue.

(f) Strengthening of the commercial banking system (specific recommendations on this score are regarded as outside the scope of the Mission's terms). Establishment of branches by foreign banks would be of assistance.

(g) Establishment of a widespread network of savings banks and savings funds and institutions such as a postal savings system.

3. Budgeting and fiscal management

(a) Establishment of the direct responsibility of the Director of the Budget to the President of the Republic; establishment of adequate post-auditing powers of the Comptroller General and supervision by Director of the Budget of budgets of agencies.

(b) Elimination of dedicated taxes.

(c) Separation of Government salaries and similar current expenses from capital outlays.
(d) Abolition of departmental and municipal taxes, custom houses, etc., unless necessary revenue of local governments is impaired.

4. Taxation and Public Finance

(a) Short-run measures to increase tax revenues by some 30 to 50%: (1) education and facilities (publications, etc.) to improve tax compliance; (2) temporary increases in taxes on domestic consumption, imports and production; and (3) temporary increases in existing income and profits taxes by establishing unearmarked surcharges.

(b) Long-term measures to increase tax revenues: increase of the following taxes: (1) property taxes on the basis of proper assessment, (2) export taxes except on minerals (establishment of a single royalty), (3) domestic consumption taxes on a few items such as alcohol and tobacco, and (4) income taxes — establishing a normal income tax with appropriate family exemptions, an individual surcharge tax, a flat corporate tax and a corporate tax of 10% on dividends paid.

(c) Simplification and codification of tax legislation.

(d) Elimination of earmarking of tax receipts; all receipts to accrue to general revenues.

5. Mining (clearly labeled a field exclusively for private investment)

(a) Establishment of a Ministry of Mines, Petroleum and Economy to handle mining, petroleum development and power.

(b) Reduction and consolidation of mining taxes, which should be based on net profits after deduction of depreciation and depletion; corporate taxes paid by the mining companies should be the same as taxes paid by other industries.

(c) Exchange surrender by miners should be proportionate to needs of miners, not to grade of concentrate.

(d) Mine operators and labor should be consulted on any proposed legislation affecting their interests.

6. Agriculture

(a) The type of soil conservation practice suitable for each major area of Bolivia is specified, but recommendations do not reach the project stage.

(b) Irrigation by pumping rather than by large storage dams is favored; but in general, transport, labor, drainage and land clearing problems take priority over irrigation. Completion of existing major irrigation projects is recommended, however, in view of the investment
already made, and again, no projects in the other fields are mentioned.

(c) In line with its acceptance of the principle that agricultural development should center around crops already developed on a small scale, agricultural credit should be the responsibility of the Development Bank and should be decentralized in administration (though care should be taken not to dissipate resources among too many borrowers). Credits should be primarily for short-term and for specific crops, and technical supervision should be offered by the credit agency.

(d) Marketing assistance in the form of public buying, government-established markets, storage facilities and official grading systems, particularly for agricultural exports, are needed, but should be the subject of further study and investigation.

(e) Effective resettlement and colonization requires "a carefully planned central Government policy", formulated with the cooperation of all agencies concerned with economic development; the report does not, however, propose any institution or project, and limits its recommendation to the suggestion that United Nations technical assistance be sought.

(f) The Ministry of Agriculture should be reorganized and the existing "Servicio de Fomento Agrícola" should be abolished. The ministry should have three departments: Division of Agriculture, comprising branches for extension services, economics and statistics, plant industry, animal industry, rural structure and soils; a Division of Lands, to be concerned with developing information on productive or potentially productive land and establishing policies of land use, and to make recommendations with respect to changes in land tenure; a Division of Water Conservation, to plan a comprehensive national water-use system and perform related functions.

(g) Specific crop recommendations; wheat, cotton and fiber production should be developed for import replacement; coffee, cocoa and rubber production afford the most important export possibilities. Tobacco, sugar, cotton, rice, corn, edible oil seeds and livestock offer eventual export prospects. With respect to wheat, the recommendations of an FAO expert, Dr. H. G. Dion, entitled "Agriculture on the Altiplano", are accepted. Detailed discussion of proposals for sugar refineries is included and the mission recommends that the Government undertake to guarantee a foreign loan for the mill proposed near Montero (Sta. Cruz). The mission also recommends starting a pilot project for fiber production on a certain hacienda, apparently privately owned, but does not assign responsibility. All other recommendations are limited to mentioning suitable areas and crop types.

7. Forestry

The Bolivian Government should employ temporarily at least three
foreign foresters nominated by the United Nations. Of these the Chief Forester should have the status of Administrative Assistant. The Mission justifies this recommendation on the basis of the magnitude of the fuel and erosion problems in Bolivia, as well as on the possibility of exports.

8. Transport

(a) Reorganization of the Ministry of Public Works to include adequate administration of transport.

(b) The Mission's classification of roads in order of national economic importance should govern construction and future allocation of resources, for which an annual cost estimate of ten million Bolivianos is presented (the only case of financial reckoning to be found among the recommendations).

(c) Coordination of rail and road construction.

(d) Unification of operation of all railroads, at present privately operated, under a single agency in which existing companies would be represented. A United Nations expert could preside over the board of this agency. The Mission believes this action would result in substantial savings which would be used for transport development.

(e) Detailed recommendations already presented to the Bolivian Government with respect to railway construction are outlined.

(f) State operation of airfields is recommended, but leasing of airfields to private companies presently operating them is considered acceptable. State supervision and standards of service should be established.

(g) A small inland waterway system should be established, and could be "entrusted" to Lineas Aereas Bolivianas.

9. Power

(a) The existing Director General of Hydraulics and Energy should be expanded and transferred from the Ministry of Public Works to the new Ministry of Mines, Petroleum and Economy, and should undertake a survey of Bolivian power potential and facilities. An Administrative Assistant should be nominated by the United Nations for this Division.

(b) A semi-public Bolivian Power Corporation should be established to operate under the Ministry of Mines, Petroleum and Economy, with the function of supplying electric power at reasonable prices in step with the needs of the development of the Bolivian economy. The Corporation will be a limited stock company with power to issue bonds at home and abroad, and to take up loans from foreign and Bolivian banks. The Government should undertake to supply foreign exchange required by the
Corporation to finance the foreign debt it may assume. Chairman of the Corporation should for an interim period be nominated by the United Nations.

10. Industry

The Mission apparently believed specific recommendations to be irrelevant in the present stage of development of Bolivian industry; measures for tax revision, trade and exchange policies, etc., applying to industry, are subsumed under other divisions of the Report; the Mission therefore confines its proposals with respect to industry to recommending adoption of a policy of fostering decentralized small scale industry supplying everyday consumption needs and the raw materials for construction of roads, industrial building, housing, etc. A U.N.- nominated Administrative Assistant should be appointed within the Ministry of Mines, Petroleum and Economy to be responsible for planning industrial development.

11. Social development: standards of living

(a) Development of statistics on national income, income distribution and family budget, etc.

(b) Educational campaigns to discourage alcoholism, coca addiction, and to promote better habits of nutrition and housing and to improve vocational training. UN technical assistance is recommended.

(c) Public authorities and private companies "should continue on a limited scale to supply nuclei of modern housing, to serve as patterns".

12. Labor

(a) The Mission approves labor and social security legislation in general, but believes it should be partially revised so as to eliminate provisions that are not at present enforced or that represent an excessive financial or administrative burden. Operation of pension funds should be thoroughly reorganized, both in relation to payments and investments.

(b) Government intervention in labor relations should be minimized.

(c) Dual functions of conciliation and factory inspection now carried out by Government labor inspectors should be separated.

(d) Hours of work of women and children should be raised to equal those of men; shorter hours for women and minors are regarded as hidden wage discrimination. Overtime rate should be reduced to a more "realistic level", e.g., one that will not encourage dawdling. Christmas bonuses should be eliminated, on the grounds that the Bolivian workers tend to
misuse these funds anyway. (This proposal conflicts with the assumption in a preceding section with respect to savings available from such payments for channeling into investment).

(e) A Labor Research Institute should be established.

(f) An extensive list of advisory personnel, "many of whom might be provided by the United Nations or its Specialized Agencies" is recommended to be employed by the Ministry of Labor, the Ministry of Mines, Petroleum and Economy, the Social Security Administration, etc.

(g) The ILO Immigration Office in Sao Paulo should be requested to provide assistance in immigration.

13. Social Welfare

(a) An Administrative Assistant should be appointed to the Ministry of Labor and Social Welfare, and foreign experts should be employed for specified fields.

(b) Social welfare training organizations should be expanded.

(c) Local (primarily departmental) social welfare boards should be established.

(d) Supervision of child care organizations should be intensified.

(e) Care of the handicapped, especially the deaf, mute and blind, should be consolidated.