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Report No. P-6345-BO

MEMORANDUM AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED CREDIT
IN AN AMOUNT OF SDR 10.5 MILLION
TO THE
REPUBLIC OF BOLIVIA
FOR A
REGULATORY REFORM AND CAPITALIZATION TECHNICAL ASSISTANCE PROJECT

JUNE 14, 1994

MICROGRAPHICS

Report No: P- 6345 BO
Type: MOP

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CURRENCY AND EQUIVALENTS

Currency Unit - Boliviano (Ps)
Exchange Rate Effective June 1994

US\$1.00 = Bs 4.61
Bs 1.00 = US\$0.22

GOVERNMENT OF BOLIVIA FISCAL YEAR

January 1 to December 31

GLOSSARY OF ABBREVIATIONS

- AASANA** - Administracion Autonoma de Servicios Auxiliares a la Navegacion Aerea (Airports Administration Company)
- CIF** - Cost, Insurance and Freight
- CONARE** - Comision Nacional Reguladora (National Regulatory Commission)
- EMV** - Empresa Metalurgica Vinto (Vinto Smelting Company)
- ENDE** - Empresa Nacional de Electricidad (National Electricity Company)
- ENFE** - Empresa Nacional de Ferrocarriles (National Railway Company)
- ENTEL** - Empresa Nacional de Telecomunicaciones (National Telecom Company)
- ESAF** - Enhanced Structural Adjustment Facility
- FSAC** - Financial Sector Adjustment Credit
- GDP** - Gross Domestic Product
- ICB** - International Competitive Bidding
- IDA** - International Development Association
- IDB** - Inter-American Development Bank
- IMF** - International Monetary Fund
- LAB** - Lloyd Aereo Boliviano (National Bolivian Airline)
- LCB** - Local Competitive Bidding
- MIF** - Multilateral Investment Fund
- PPF** - Project Preparation Facility
- SDR** - Special Drawing Rights
- TAB** - Transportes Aereos Bolivianos
- TAM** - Transportes Aereos Militares
- YPFB** - Yacimientos Petroliferos Fiscales Bolivianos (Bolivian Petroleum Company)

BOLIVIA

REGULATORY REFORM AND CAPITALIZATION TECHNICAL ASSISTANCE PROJECT

Credit and Project Summary

Borrower: Republic of Bolivia

Beneficiary: Ministry of Capitalization

Amount: SDR 10.5 million (US\$14.7 million equivalent)

Terms and Conditions: Standard IDA terms with an amortization period of 40 years, and a grace period of 10 years

		<u>Local</u>	<u>Foreign</u>	<u>Total</u>
		(US\$ million equivalent)		
Financing Plan	Government	3.23	2.37	5.60
	IDA	0.50	14.20	14.70
	Other assistance			
	- Government of France	0.00	0.70	0.70
	- Multilateral Investment Fund (Technical Cooperation Facility--IDB)	<u>0.50</u>	<u>1.80</u>	<u>2.30</u>
	Total	<u>4.23</u>	<u>19.07</u>	<u>23.30</u>

Rate of Return: Not applicable

Staff Appraisal Report: Not applicable

Map: IBRD 20516

**MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT
OF THE IDA TO THE EXECUTIVE DIRECTORS
ON A PROPOSED CREDIT TO THE REPUBLIC OF BOLIVIA
FOR A REGULATORY REFORM AND CAPITALIZATION
TECHNICAL ASSISTANCE PROJECT**

1. I submit for your approval the following report and recommendation on a proposed development credit to the Republic of Bolivia for SDR 10.5 million, the equivalent of US\$14.7 million, on standard IDA terms with a maturity of 40 years to help finance a project for the establishment of an appropriate legal and regulatory environment and the divestiture of key public enterprises. Cofinancing is being provided by the Multilateral Investment Fund (MIF of the Technical Cooperation Facility of the Inter-American Development Bank) and by the Government of France.

Country Background

2. Despite the achievements attained since the Bolivian Government first adopted an adjustment program in 1985, two main factors explain the disappointing performance of the economy in attracting private investment. First, public enterprises dominate key sectors of the economy that present strong growth potential—hydrocarbons, mining, telecommunications, electricity and transport. Second, Bolivia lacks an institutional framework to ensure private agents clarity, predictability and enforceability of the legal and regulatory principles governing their activities.

3. The new Government assumed office in August 1993 with the pledge to continue to reduce and rationalize the role of the state and to move the social agenda forward. The centerpiece of the Government's *Plan de Todos* is a bold program of privatization of six major public enterprises through a process called *capitalization*. The plan includes the capitalization of *YPFB* (hydrocarbons); *ENTEL* (long distance telecommunications); *ENDE* (electricity generation and transmission); *ENFE* (railways); *LAB* (airline) and *EMV* (smelter). The Capitalization Law, passed by Congress in March 1994, states that the Government will: (i) transfer up to 50% of the ownership of the new private enterprises derived from the selected public enterprises to strategic investors; (ii) require private investors not to buy existing assets, but rather to invest in the company itself, increasing the capital of the company by the purchase price and providing it with liquidity for new investments for expansion; and (iii) transfer the shares corresponding to the State's present share ownership to all adult Bolivians. These shares will not be given directly to Bolivians, but will be transferred to individual deferred distribution accounts to be managed by responsible fiduciary institutions. The law also specifies that investors and/or managers of the capitalized companies will sign a management contract with the corporation; after the expiration of this contract the strategic investor may purchase additional shares and thereby own more than 50% of the shares of the company. This law also states that regulatory responsibility for the communications, power, hydrocarbons and transport sector will be vested at the national rather than the municipal level.

4. Prior to the capitalization of these enterprises, the Government intends to enact sector-specific laws and promulgate regulations to promote investment and a competitive, efficient environment in the sectors that have been dominated by these companies. Draft laws for the telecommunications, hydrocarbons, electricity and mining sectors are being prepared for

submission to the next session of Congress beginning in August 1994. The Ministry of Capitalization was created in March 1994 to oversee the entire process of sectoral and regulatory reform as well as the actual capitalization of enterprises.

5. The draft National Regulatory Commission Law provides for the establishment of a regulatory agency (*CONARE*) for the communications, electricity, hydrocarbons and transport sectors. Although sectoral laws will elaborate *CONARE*'s specific powers in relation to each sector, this draft law includes rules on certain cross-sectoral issues, including transparency requirements, sanctions and anti-trust rules. Within *CONARE*, day-to-day regulatory activity and decision-making would be the responsibility of sector-specific Superintendents and their staff. To ensure that *CONARE* is adequately staffed and equipped, its funding would be derived from fees imposed on the regulated sectors. The Superintendents would be overseen by a three-person Commission, which will also consider appeals from Superintendents' decisions. The Government intends to establish this regulatory agency with functioning sectoral departments by early 1995.

Project Objectives

6. The project's objectives are to assist the Government in the planning, design and execution of its capitalization program and to ensure that the Government has at its disposal the varied and complex advice needed for such a program. At the same time, the project aims to design and establish the overall regulatory framework for the future development of key sectors and to ensure that the new regulatory institution begins operations in a satisfactory manner.

Project Description

7. The proposed project will provide support to: (i) strengthen the capacity of the Ministry of Capitalization to conduct the sector reform and capitalization process for six sectors (hydrocarbons, electricity, telecommunications, railways, aviation, smelter/mining); (ii) help establish the regulatory agency, *CONARE*; (iii) develop specific reform strategies, legislation and regulations for the reorganization of the telecommunications sector and the subsequent capitalization of *ENTEL*; and (iv) develop a similar program for the aviation sector, which deals not only with the capitalization of *LAB*, but also the divestiture of the airports authority *AASANA*, and the two smaller state-owned airlines *TAB* and *TAM*. A full description of the proposed project, including the details, the state of preparation and a breakdown of the estimated cost of each of the four components, is presented in the *Technical Annex* to this Memorandum.

8. The project will complement other IDA-supported technical assistance operations under preparation to provide similar assistance to the hydrocarbons, electricity and financial sectors, and for judicial reform. At the same time, assistance to the railways sector and the mining sector will be provided through ongoing operations--the Export Corridors Project and the Mining Sector Rehabilitation Project, respectively. These projects would support the achievement of policy measures being considered under the forthcoming Capitalization Program Adjustment Credit. The following paragraphs summarize the main features of each component.

9. ***Strengthening the Capacity of the Ministry of Capitalization:*** The Ministry of Capitalization was established to coordinate and direct the capitalization process. Sector-specific working groups have been formed to perform the technical work needed for the

reform. At the same time, a *Procurement Unit* has been established within the Ministry of Capitalization to provide oversight and advisory services for the procurement of consultants and equipment to be financed under the various technical assistance operations now being prepared. Detailed procedures for managing the procurement process will be developed by the procurement staff, with the assistance of an internationally-recruited procurement specialist thoroughly familiar with World Bank procurement procedures.

10. A detailed program of technical assistance has been developed to support these activities. To enhance the capacity of the Ministry to carry out this work, the program would provide for: (i) legal and privatization advisors; (ii) specialized procurement advisors and equipment needed to establish the new Procurement Unit; and (iii) assistance and materials for a public information campaign to design and explain the capitalization program and the distribution scheme. The total estimated cost of the program to strengthen the Ministry of Capitalization as outlined above is US\$7.56 million equivalent of which US\$4.16 million is being proposed for financing under the IDA Credit. The balance would be financed through budgetary resources and from the MIF grant.

11. **Regulatory Reform:** The Government proposes to establish a National Regulatory Commission, *CONARE*, to regulate aspects of the electricity, hydrocarbons, communications and transport industries. Although *CONARE*'s detailed jurisdiction in each sector will be determined by sectoral laws, it is expected to have three core functions: (i) assistance in administering and enforcing concession arrangements; (ii) administration of price regulation arrangements; and (iii) enforcement of anti-trust norms.

12. Elements of the proposed program to assist regulatory reform include: (i) a long-term regulatory expert advisor; (ii) consultant studies on matters such as the organization and staffing of the agency, the development of key policies and procedures and the management of the agency's financial, personnel and other resources; (iii) training programs for *CONARE* staff on cross-sectoral regulatory matters; and (iv) twinning arrangements and other contacts with regulatory institutions in other countries. The total estimated project cost for this component is US\$1.3 million equivalent of which US\$1.1 million is being proposed for financing under the IDA credit. The balance will be funded by the Government.

13. **Telecommunications:** Elements of the proposed program to assist the reform and subsequent capitalization of the telecommunications sector include: (i) advisors to assist the sectoral reform process and the capitalization of ENTEL; (ii) training for the regulatory agency personnel; and (iii) specialized equipment for the regulatory agency including frequency monitoring equipment and computer hardware and software. The total estimated project cost for this component is US\$9.8 million equivalent of which US\$6.3 million is being proposed for financing under the IDA credit while the remainder will be financed by the Government. Only the retainer fee of the investment bank has been included as part of the IDA financing package; it has been assumed that the success fee would be financed from the proceeds of the capitalization.

14. **The Aviation Sector:** The proposed program to assist the aviation sector includes: (i) sectoral reform and the development of an appropriate regulatory framework; (ii) the capitalization of *LAB*; (iii) the privatization of some operations of the airports authority, *AASANA*; and (iv) the privatization or liquidation of *TAM* and *TAB*. The total estimated cost of this component is US\$3.44 million equivalent of which US\$1.92 million would be financed by

the IDA credit. The Government of France intends provide FF 5 million (about US\$700,000) in financing to examine the rationalization of the Bolivian airports system. Remaining costs would be covered by the Government.

Project Costs

15. The total cost of the proposed technical assistance program is estimated at US\$23.3 million equivalent as of May 1994, including the refinancing of US\$1 million of a Project Preparation Facility (PPF) which was provided for this operation.¹ The proposed financing plan for the Project includes: (i) US\$14.7 million (including the US\$1 million Project Preparation Facility reimbursement) which would be financed under the proposed IDA credit; (ii) US\$3.0 million of cofinancing through an Inter-American Development Bank (IAD) grant for US\$2,336,000 and a French Government grant for French Francs 5,000,000; and (iii) the balance of US\$5.6 million which will be financed by Government through budgetary allocations and (for the success fees related to the divestment of *ENTEL* and *LAB*) from the proceeds of the transactions themselves. *Schedule A* to this Memorandum is a detailed summary of the total project cost broken down by major components. *Schedule A* also shows the proposed financing plan and a schedule of estimated disbursements.

Project Implementation

16. Responsibility for implementing the project lies directly with the Ministry of Capitalization, through its Secretariat of Capitalization. This Ministry's staff would receive substantial support through the technical assistance provided under this project and the other sectoral technical assistance operations which are planned. This support is already underway, financed in part by the PPF for this operation. Working groups have been established in each of the sectors to elaborate sector restructuring and enterprise capitalization plans as well as to implement financial sector reforms and design the share distribution scheme. The working groups also have the main technical responsibility for defining tasks, preparing terms of reference, and overseeing the work of consultants. All key terms of reference have been discussed with IDA and may be found in project files. The Government has assigned the President of each of the enterprises with specific day-to-day responsibility for monitoring and maintaining the pace of capitalization. The sectoral Secretaries are responsible for leading the working groups on sectoral reform issues. Details of the key monitorable project activities, together with target dates, are contained in *Schedule 1*.

17. The Procurement Unit has been established to deal with the large number of consulting contracts to be financed through the project. This group is already receiving training and other support from Bank procurement specialists. This Ministry is also responsible for contracting the initial support needed to establish *CONARE*. These arrangements, which have been consolidated and strengthened since the appointment of the new Minister of Capitalization in April 1994, are already producing results and should ensure rapid and efficient implementation

^{1/} A Project Preparation Facility of US\$1.5 million was approved in August 1993. US\$1 million of this facility was specifically earmarked for technical assistance for regulatory reform and capitalization; the other US\$0.5 million for judicial reform. It was subsequently decided to separate the judicial reform activities as a discrete project and to allocate the PPF reimbursement responsibilities between the two operations. The original PPF agreement was amended to reflect this change.

of this project and the capitalization and regulatory reform which it supports. The Ministry would provide office space and administrative support to the technical advisors.

18. The *Technical Annex* describes the procurement and disbursement arrangements for the proposed credit. As summarized in *Schedule B*, procurement would be according to normal Bank review procedures and disbursements would be made against 100% of the net-of-tax costs of local and foreign consultants, 100% of training expenses, 100% of the CIF cost of imported goods and of the ex-factory cost of local goods and 85% of the cost of locally-procured goods. Retroactive financing for consulting activities and related equipment procured under Bank guidelines after May 1, 1994, is proposed, up to a limit of US\$1.47 million, equivalent to 10% of the proposed amount of the credit. The Project is expected to be completed by end-1997. The *closing date* is June 30, 1998.

Project Sustainability

19. Bolivia's capitalization program has the specific objective of: (i) restructuring the energy, telecommunications, mining and transport sectors; (ii) privatizing six major state-owned enterprises within these sectors; and (iii) setting up an agency to regulate the provision of public services within these sectors. The project is designed to support the Ministry of Capitalization to accomplish all three of these objectives. But at project completion, the Ministry of Capitalization will be disbanded.

20. The long-term success of this divestiture process depends greatly upon the establishment of an appropriate regulatory framework in these sectors. The sectoral laws and regulations will be administered by the regulatory agency, *CONARE*, which will be self-financed through user charges as stated in the draft *CONARE* law and specified in the draft sectoral reform laws. This independent funding source should help to attract and retain highly-qualified staff. *CONARE*'s multisectoral jurisdiction was designed to resist industry capture and increase the efficient use of scarce skilled human resources. To protect the independence of the agency, the Commissioners and Superintendents will have substantial security of tenure during five year staggered terms. In addition, through the exercise of its independent jurisdiction, *CONARE* should build a constituency of support among consumers and industry and Government representatives.

21. The success of the divestiture program also will depend upon the professionalism and skill of those designing and implementing the program. This project is designed to help bring such expertise to the process. The six enterprises will be owned initially by the Bolivian people (whose shares will be in deferred distribution accounts managed by pension funds), and by strategic investors who will manage the companies through a management contract. These shares' value will be determined by trades on international and domestic markets.

Lessons Learned from Previous Bank/IDA Involvement

22. The design of the divestiture and regulatory reform program to be supported by this technical assistance credit reflects several lessons learned in Bolivia and elsewhere. Key lessons include the need for: (i) full commitment to the process at the highest Government levels; (ii) the introduction of policy and regulatory reforms to promote competition and protect consumer welfare prior to the privatization transaction; (iii) a limit on the scope and size of the technical assistance credit to ensure adequate supervision; (iv) the establishment of a

coordination mechanism within Government (the Ministry of Capitalization) to ensure consistency and coherence; and (v) an efficient Government procurement mechanism to ensure that the work gets done in a timely manner while conforming to IDA procedures.

Rationale for Bank Involvement

23. The proposed project is consistent with the Bank's country assistance strategy discussed by the Board on February 8, 1994 as well as the Government's policy agenda, which aims to reduce the role of the State in productive and infrastructure sectors while improving the delivery of social services through efficient social sector expenditures. This project, together with companion technical assistance operations would provide direct assistance to the Government's adjustment program to help establish an appropriate legal and regulatory environment and to divest key public enterprises. More global support for the Government's program is proposed under a Capitalization Program Adjustment Credit now being appraised. This project was prepared according to the timetable shown in *Schedule C. Schedule D* of this Memorandum provides a Statement of Bank Loans and IDA Credits in Bolivia as of March 31, 1994.

Agreed Actions

24. During negotiations, agreement was obtained on the:

- specific consulting tasks and equipment needs and financing plan of the Project (as described in the *Technical Annex*);
- details of the MIF and French Government cofinancing packages. It was agreed that IDA financing would be restricted to those items for the strengthening of the Ministry of Capitalization and telecommunications sector reform that were not cofinanced by the MIF. In addition, it was agreed that if the cofinancing agreements with the Inter-American Development Bank (MIF) and the French Government are not signed by the Government by March 31, 1995, the Association would be authorized to suspend disbursements unless suitable alternative sources of financing could be found.
- project implementation timetable shown in *Schedule 1*.
- principles of the Supreme Decree on procurement that transfers procurement authority to the Government from procurement agencies. The enactment of this decree is a condition of project effectiveness.
- principles of the *CONARE* law. The passage by Congress of the *CONARE* law is a condition of disbursements for *CONARE* staff training and twinning arrangements. This law is needed prior to the appointment of *CONARE* staff.
- principles for restructuring the telecommunications sector. The passage by Congress of the Telecommunications Law is a condition of disbursements for training the staff and purchasing of equipment for the Superintendency of Telecommunications within *CONARE*. This law is required to define the specific regulatory responsibilities of this Superintendency.

- principles for restructuring the aviation sector.
- reporting requirements of the project. In addition to meeting all financial reporting requirements, a full progress report will be prepared and submitted to IDA every six months. This report will detail all project and related activities, report on progress in relation to agreed schedules, and identify any problems which may have been encountered and which could adversely affect the overall impact of the project.

Environmental Aspects

25. Environmental category C. The TA credit has no direct environmental impact. However, an environmental audit will be performed on all appropriate public enterprises prior to the date of their capitalization and the Government intends to assume responsibility for all such environmental liabilities. New owners will be subject to all environmental laws and standards.

Program Objective Categories

26. This project, by supporting policy reforms to promote investment, privatization and regulatory reforms as well as the institutional development of *CONARE*, will contribute to private sector development and improved public sector management.

Project Benefits

27. The economic benefits of the technical assistance provided through this credit are expected to be substantial. Comprehensive reform and the development of an appropriate regulatory framework for the hydrocarbons, telecommunications, electricity and mining sectors will encourage private investment and technology transfer. The capitalization program in general should have an important impact on GDP growth. These reforms are also expected to free up to 25-35% of the Government's annual investment budget to invest in human capital and basic infrastructure. The capitalization of the telecommunications and aviation sectors, specifically, is expected to attract several hundred millions of US dollars of new investment capital.

Risks

28. The main risks faced by the project are delays in implementation due to a lack of adequate skilled staff within the working groups and the procurement agency. Addressing this risk is the specific objective of the proposed project. Additional efforts (such as in-Bank training of the staff of the procurement unit) are already underway. Another important risk is the political difficulty associated with securing Congressional passage of sectoral reform legislation and implementing the divestiture of key public enterprises. The public information campaign is included within the project as a mechanism to explain the reform program and distribution scheme to Bolivians and solicit their feedback. A final risk is the difficulty of establishing an independent, technically-proficient regulatory capacity within Bolivia. This project will only assist in the beginning stages of the process, but the passage of sector legislation and regulations as well as including independent sources of financing from the sectors for the regulatory agency should help to lessen these longer-term risks.

RECOMMENDATION

29. I am satisfied that the proposed credit would comply with the Articles of Agreement of the Association and recommend that the Executive Directors approve it.

**Lewis T. Preston
President**

**Attachments
Washington D.C.
June 14, 1994**

**BOLIVIA - REGULATORY REFORM AND CAPITALIZATION
TECHNICAL ASSISTANCE PROJECT**

**SCHEDULE A - ESTIMATED PROJECT COSTS AND FINANCING PLAN AND
DISBURSEMENT SCHEDULE
(US\$ equivalent)**

Table 1 - Estimated Total Project Cost

<i>Item</i>	<i>Local Cost</i>	<i>Foreign Costs</i>	<i>Total</i>
<i>Refinancing of PPF</i>		1,000,000	1,000,000
<i>A. Ministry of Capitalization</i>	2,210,000	5,350,000	7,560,000
<i>B. Technical Assistance to CONARE</i>	200,000	1,300,000	1,500,000
<i>C. Telecommunications Sector</i>	1,500,000	8,300,000	9,800,000
<i>D. Aviation Sector</i>	320,000	3,120,000	3,440,000
<i>Total</i>	4,230,000	19,070,000	23,300,000

Table 2 - Projected Financing Plan

<i>Source of Finance</i>	<i>Local Cost</i>	<i>Foreign Costs</i>	<i>Total</i>
<i>Government of Bolivia</i>	3,230,000	2,370,000	5,600,000
<i>IDA</i>	500,000	14,200,000	14,700,000
<i>Other assistance</i>			
- <i>Government of France</i>	0	700,000	700,000
- <i>Multilateral Investment Fund</i>	500,000	1,800,000	2,300,000
<i>Total</i>	4,230,000	19,070,000	23,300,000

**BOLIVIA - REGULATORY REFORM AND CAPITALIZATION
TECHNICAL ASSISTANCE PROJECT
SCHEDULE B - SUMMARY OF PROCUREMENT AND DISBURSEMENT
ARRANGEMENTS
(US\$ equivalent)**

Table 1 - Procurement Arrangements

Procurement Category	IDA Financed Procurement ^{a/}			Non-IDA Financed procurement ^{b/}	Total
	ICB	LCB	Other		
Consultants services, training and related expenses	-	-	13,500,000 (10,200,000)	4,300,000	17,800,000 (10,200,000)
Goods/Equipment	3,500,000 (3,500,000)	600,000 (600,000)	400,000 (400,000)	1,000,000 -	5,500,000 (4,500,000)
Total	3,500,000 (3,500,000)	600,000 (600,000)	13,900,000 (10,600,000)	5,300,000	23,300,000 (14,700,000)

Notes: Figures in parentheses indicate the amounts financed by IDA

^{a/} International Competitive Bidding, using standard Bank documents, will be used for the telecommunications regulatory equipment and for goods valued at greater than US\$150,000 equivalent. Local Competitive Bidding (LCB) will be used for goods and production of advertising and collateral materials valued at more than US\$25,000 and less than US\$150,000 (not exceeding US\$600,000 in the aggregate), using standard bidding documents approved by IEA. "Other" IDA procurement includes procurement of consultants according to Bank guidelines, and for goods valued at less than US\$25,000, and for printing and distribution of advertising and collateral materials, through shopping procedures acceptable to the IDA (not exceeding US\$400,000 in the aggregate). Prior review will be mandatory for all ICB and LCB procurement as well as for the first contract procured through shopping. Services procured by the borrower but not financed by IDA are the "success fees" of the investment bankers handling the transactions for *ENTEL* and *LAB*.

^{b/} Non-IDA financed procurement is for (i) procurement of consultant services according to cofinancier's procedures; and (ii) locally-financed procurement under local procedures of consultants, equipment and equipment-related services.

Table 2 - Disbursements

Category	Amount	Percentage
Consultant services	7,100,000	100% net of taxes
Goods	3,600,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% for other items procured locally
Public information campaign	1,000,000	100%
Training and related expenses	600,000	100%
Refunding PPF	1,000,000	Amounts due
Unallocated	1,400,000	
Total	14,700,000	

Table 3 - Projected Disbursement Schedule for IDA Credit

	FY95	FY96	FY97	FY98
<i>Annual</i>	5,000,000	4,000,000	4,000,000	1,700,000
<i>Cumulative</i>	5,000,000	9,000,000	13,000,000	14,700,000

**BOLIVIA - REGULATORY REFORM AND CAPITALIZATION
TECHNICAL ASSISTANCE PROJECT**

SCHEDULE C - TIMETABLE OF KEY PROCESSING EVENTS

- (a) Time taken to prepare: Five months
- (b) Prepared by: Government of Bolivia with IDA staff
- (c) First IDA mission: December 1993
- (d) Appraisal mission departure: April 1994
- (e) Negotiations: May 1994
- (f) Planned Effectiveness: August 1994
- (g) List of relevant PCRs and Project Performance Audit Reports (PPARs):

PPAR •Emergency Social Fund Program (Ln. 1587-BO); May 29, 1990

PCR •National Mineral Exploration Fund Project (Cr. 940-BO); Sept. 10, 1990

PCR •Urban Development Project (Ln. 1489-BO); July 8, 1992

PCR •Vuelta Grande Gas Recycling Project (Cr. 1719-BO); August 12, 1993

**BOLIVIA - REGULATORY REFORM AND CAPITALIZATION
TECHNICAL ASSISTANCE PROJECT**

**SCHEDULE D - STATUS OF BANK GROUP OPERATIONS IN BOLIVIA
(US\$ millions)**

Table 1 - Statement of Bank Loans and IDA Credits as at March 31, 1994

<i>LO/CR Number</i>	<i>Fiscal Year</i>	<i>Borrower</i>	<i>Purpose</i>	<i>Amount (less cancellation)</i>		<i>Undis- bursed</i>
				<i>Bank</i>	<i>IDA</i>	
16 loans, 26 credits closed				274.78	395.08	
18090	1987	Bolivia	Public Financial Mgt		11.50	0.07
18180	1987	Bolivia	Power Sector Rehab		6.80	0.55
18420	1988	Bolivia	La Paz Munic. Devt		15.00	2.03
19770	1989	Bolivia	Econ Mgt Stret.gth		9.70	0.25
20120	1989	Bolivia	Export Corridors		37.00	11.19
20130	1989	Bolivia	Mining Sector		35.00	27.27
20920	1990	Bolivia	Integrated Health Dev		20.00	12.07
21190	1990	Bolivia	Eastern Lowlands		35.00	18.78
21270	1990	Bolivia	Social Invest Fund		20.00	2.37
21340	1990	Bolivia	Private Enterprise Dev		16.10	13.89
21870	1991	Bolivia	Water Supply/Sewerage		35.00	24.71
22160	1991	Bolivia	Technology Dev		21.00	13.63
22790	1991	Bolivia	Public Financial Mgt		11.30	7.99
22980	1992	Bolivia	Struct Adjust Cred		40.00	8.81
23220	1992	Bolivia	Agr Exp Dev Prog		22.50	20.89
23950	1992	Bolivia	Road Maintenance		80.00	80.47
24430	1993	Bolivia	Environ TA Project		4.80	3.28
25310	1993	Bolivia	Integrated Child Dev		50.70	50.56
22982 (S)	1993	Bolivia	Struct Adjust Cred		11.12	0.13
25320	1993	Bolivia	Social Invest. Fund II		40.00	39.97
22983 (S)	1994	Bolivia	Structural Adjust. Cr.		9.37	9.52
25650	1994	Bolivia	Municipal Development		42.00	42.51
Total of open operations					573.89	390.87
TOTAL				274.78	968.97	
Of which repaid				<u>195.04</u>	<u>16.62</u>	
Net held by Bank/IDA				79.74	952.35	
Amount sold				0.05		
Of which repaid				0.05		
Total Undisbursed						<u>390.93</u>

Table 2 - Statement of IFC Investments as of March 31, 1994

	<i>Loan</i>	<i>Equity</i>	<i>Total</i>
Total Gross Commitments	88.24	11.31	99.55
Less: cancellations, terminations, exchange adjustments, repayments, write-offs and sales	19.94	0.89	20.83
Total Commissions now held by IFC	68.29	10.42	78.72
Total Undisbursed IFC	2.39	3.40	5.80

**BOLIVIA - REGULATORY REFORM AND CAPITALIZATION
TECHNICAL ASSISTANCE PROJECT**

TECHNICAL ANNEX - THE PROJECT

Section A: Detailed Project Description

Strengthening the Ministry of Capitalization

Background

1. To speed the process of sector reform and capitalization, and achieve the most advantageous results, the Bolivian Government is making extensive use of both internationally-recruited and domestic consultants and advisors in the preparation and implementation of its capitalization program. Much of this assistance is sector-specific, and has been funded through a variety of programs. Direct assistance to the Secretariat (now Ministry) of Capitalization has been financed through a variety of means including counterpart funds from the ongoing SAC, a Japanese grant facility which was obtained for the preparation of the Capitalization Project Adjustment Credit and a Project Preparation Facility for this present project. As the pace of work increases, and these sources of funds become depleted, additional funding must be put in place to provide essential assistance to the Ministry of Capitalization until the program is completed.

Legal and Privatization Assistance

2. The Ministry of Capitalization requires the services of specialized experts to help implement the reform program. Key among these are:

- *A full-time commercial legal advisor* who can review commercial aspects of laws under preparation but who could also provide input to the Ministry on such matters as legal procedures, consultant contracts, pre-qualification of potential investors, bidding conditions, legal audits, modifications to company by-laws, etc.
- *Short-term legal specialists* who could provide specialized inputs both in drafting legislation and in commercial transactions undertaken or overseen by the Ministry.
- An internationally-recruited, full-time *technical advisor*, with solid, hands-on privatization experience. This advisor would act as a counterpart to the Secretary of Capitalization and would be available to advise on all aspects of the process in all sectors.
- *Short-term technical advisors*, both internationally and locally recruited, for specialized assistance as required.

Procurement Unit

3. The Government will shortly issue a Supreme Decree entitling the Ministry of Capitalization to directly engage in capitalization-related procurement of consultants and associated equipment, without having to use the services of the official procurement agents

through which all Bolivian public procurement over Bs 200,000 is now channelled. To perform this function, the Ministry has established a Procurement Unit, staffed by fully-qualified local staff. It will be supported by foreign advisors as required, and equipped with the necessary office-technology and related equipment in order to effectively be able to carry out its work. Two staff members have received a week of familiarization training in Washington, and also attended World Bank procurement and disbursement seminars in La Paz. Key inputs to the Unit, which would be financed under the proposed IDA Credit, include:

- A long-term internationally-recruited *procurement advisor*, who would initially be essentially full-time in Bolivia for a period of up to six months, and who would then be available to assist the Bolivian staff periodically and as required to implement procurement. The Advisor would be fluent in both Spanish and English, and would be fully-conversant with World Bank procurement procedures.
- Special short-term internationally-recruited *procurement consultants and advisors* for key procurement areas. In some sectors, specialized knowledge will be required to prepare terms of reference and review proposals. Also, special advisors will provide valuable assistance when important, large contracts are negotiated.
- An experienced *accounting advisor* to set up and train staff in the use of the complex accounting and reporting systems which will be required to maintain accurate records of the use of IDA resources from four different technical assistance credits (together with PPFs in some cases), going to about a dozen beneficiaries, and with approximately 60 consultant contracts as well as small equipment purchases. The accounting advisor would be available periodically and as required.
- Locally-hired *procurement and accounting specialists*, including both a procurement manager and an accounting manager, together with two additional procurement officers and two additional accountants.
- *Office technology equipment and systems*, including computers net-worked and with a linkage to the Bank's All-in-One system, to facilitate Bank procurement and disbursement communications, together with other office equipment including fax machines, photocopiers, etc.

Public Information Campaign for Capitalization

4. ***Background:*** Successful capitalization in Bolivia will hinge in part upon effectively communicating both the costs of maintaining the *status quo*, and the benefits of reform. An effective communications strategy must incorporate this broad message as well as educate various target audiences about specific aspects of the program, allay unwarranted fears, and build support among stake-holders.

5. To achieve these objectives, the Government will retain a Public Relations Advisor to assist in identifying public perceptions of the capitalization program, and developing a communications strategy to effectively market the proposed program both domestically and abroad. This work will also include explaining the share distribution scheme

to all Bolivians and particularly to those retirees who are immediately eligible to receive benefits.

6. ***Proposed Scope of Work:*** The Advisor will work directly for the Secretary of Capitalization under the auspices of the Minister of Capitalization. The assignment will be for a period of approximately two years. The proposed assistance consists of four basic components: (i) design, development and implementation of a communications strategy; (ii) design, production and dissemination of advertising and collateral materials; (iii) supporting research and development; and (iv) preparation for special events.

7. ***Communications Strategy:*** The Advisor will be required to develop and implement a comprehensive communications strategy for the capitalization program, consisting of sectoral, national and international campaigns:

- The *sectoral* campaign, targeted especially at legislators and enterprise managers and employees, will aim at building congressional support for sector-specific legislation for the capitalization program.
- The *national* campaign should serve to educate the public at large about the benefits of the program and aim at building broad-based support among all stake-holders including constituents, tax-payers, enterprise managers and employees, trade unions and potential investors.
- The *international* campaign will aim at marketing the Bolivian capitalization program to potential foreign investors. Here the Advisor will work closely with financial advisors and/or investment banks dealing with the individual enterprises.

8. Major anticipated outputs resulting from implementation of the communications strategy will include television and radio advertising, print advertising (domestic and international), qualitative research packages (focus group results), quantitative public opinion surveys, direct mail to key stake-holders and constituencies, seminars and educational events.

9. ***Advertising and Collateral Materials:*** The Advisor will be directly responsible for budgeting, overseeing and coordinating the design, production and dissemination of advertising to support the communications strategy through various media, including television, radio and print. The Advisor will also be responsible for the design, production and dissemination of collateral materials such as posters, brochures and educational materials.

10. ***Research and Development:*** The Advisor will be responsible for developing and implementing a research and development program in order to accurately identify the knowledge and perceptions of the general public and major stakeholders regarding the capitalization program. This data will be analyzed to assess the effectiveness of the various programs implemented under the communications strategy, and will be used to tailor the communications effort to address and, where necessary, alter these perceptions. This work will include the collection of qualitative data through establishment of focus groups, and collection of quantitative data through public opinion surveys and other means.

11. **Special Events:** The Advisor will also be responsible for organizing special events in order to educate major stakeholders about the capitalization program. Such events might include seminars for potential investors, seminars for members of Congress and other key political figures, seminars and training programs for key public officials, and seminars for employees of enterprises which are going to be capitalized.

Cost Estimate

12. The total estimated cost of the program to strengthen the Ministry of Capitalization as outlined above is US\$7.56 million equivalent, of which US\$4.18 million is being proposed for financing under the IDA Credit. The balance would be financed through budgetary resources and from the MIF grant. Details of the estimate for individual components are contained in the following table:

Table 1 - Estimated Cost of Strengthening the Ministry of Capitalization
(US\$)

<i>Item</i>	<i>Total Cost</i>	<i>Financed by Others</i>	<i>Proposed for IDA Credit</i>
<i>Legal and Privatization Assistance</i>			
- <i>Legal Advisors</i>	340,000	140,000	200,000
- <i>Privatization Advisors</i>	2,000,000	500,000	1,500,000
<i>Procurement Unit</i>			
- <i>Procurement services</i>	800,000	200,000	600,000
- <i>Office technology equipment</i>	500,000	-	500,000
- <i>Accounting</i>	420,000	140,000	280,000
<i>Public Information Campaign</i>			
- <i>Communications strategy</i>	1,300,000	900,000	400,000
- <i>Advertising</i>	1,500,000	1,000,000	500,000
- <i>Research and Development</i>	400,000	300,000	100,000
- <i>Special Events</i>	300,000	200,000	100,000
<i>Total</i>	7,560,000	3,380,000	4,180,000

Technical Assistance to CONARE

13. The Government proposes to establish a National Regulatory Commission, *CONARE*, to regulate aspects of the electricity, hydrocarbons, communications and transport industries. Although *CONARE*'s detailed jurisdiction for each sector will be determined by sectoral laws, it is expected to have three core functions: (i) assistance in administering and enforcing concession arrangements; (ii) administration of price regulation arrangements; and enforcement of anti-trust norms.

14. The draft regulatory entity law that would establish *CONARE* provides that the agency will comprise four sector-specific National Superintendents, overseen by a multi-sectoral Commission. Key elements of the proposed organization are that:

- The *National Superintendents* will have responsibility for, respectively, electric energy, communications, hydrocarbons and transport. Their specific mandate within each sector will be determined by sectoral laws. The Superintendents and their staff will be responsible for day-to-day decision making and other regulatory activity in their respective sectors, performing tasks such as price regulation and supervision of compliance with concessions and sectoral laws. The Superintendents are named by Supreme Decree for five-year staggered terms, and are protected from arbitrary removal.
- The *three-person Commission* will have responsibility for overseeing the work of the National Superintendents and hearing appeals from Superintendents' decisions. The multi-sectoral focus is intended to promote policy consistency across the sectors and to increase the agency's resistance to improper influence from industry and government. A central administration within *CONARE* should also permit economies in staffing and other resources. Members of the Commission are named by Supreme Decree and, like the Superintendents, have five-year staggered terms with protection from arbitrary removal.

After a two year transitional period--when it will be funded from the budget--*CONARE* will be funded through industry levies and user charges.

15. The ultimate appellate body for decisions by the Commission is the Supreme Court. The Commission's decisions would be subject to review by the President and Minister before an appeal is available to the Supreme Court

Proposed Technical Assistance Program

16. To realize its potential benefits to the Bolivian economy, the Capitalization Program requires the confidence of both investors and consumers. The establishment of credible, effective and efficient regulatory arrangements will play a key role in establishing and maintaining that confidence as well as in promoting the efficient development of the key infrastructure industries involved. Given Bolivia's extremely limited experience with independent regulatory agencies of the kind represented by *CONARE*, and its lack of any previous experience in matters such as anti-trust rules, considerable technical assistance will be required, covering the four main elements presented below:

- *A full-time, La Paz-based technical advisor assigned to CONARE for a period of about 20 months.* During the early phase of the agency's establishment and operation it is anticipated that considerable ongoing and sometimes intensive support and guidance will be required by senior agency staff. An in-house technical advisor would meet this need and would also play a key role in ensuring that the elements of the technical assistance program were effectively targeted and managed. Experience in regulatory agencies would be essential, as would good management skills and communication skills in Spanish.

- **Consultant studies and advice to support the establishment of appropriate organizational and administrative arrangements.** Before recruitment below the level of Superintendent can proceed, a detailed organizational structure and staffing plan needs to be established, which would address, *inter alia*, the optimal allocation of staff between sectoral Superintendencies and one or more central departments. The agency will also require assistance in establishing appropriate policies and procedures governing the management of financial, personnel and other agency resources. Assistance of this kind could be coordinated by the La Paz-based technical advisor but would require support through studies and specialist advice provided by consultants.
- **Training programs in La Paz on cross-sectoral regulatory issues.** The regulation of utility industries is a complex political, economic and technical task, in which agency personnel are likely to have very limited prior exposure let alone well-developed skills. The relevant Superintendent and his/her staff, and to a lesser extent the Commissioners, will require training on sector-specific issues, including the key economic, technical and other characteristics of each sector. Training of this kind is an essential part of the total assistance package, but is considered separately in relation to each sector under relevant sectoral operations. In addition to such sector-specific training, Commissioners, Superintendents and relevant staff will require training on *cross-sectoral* regulatory matters covering such subject matter as: (i) the role of regulators vis-à-vis other actors—the theory and practice of managing appropriate relationships with industry, executive and legislative branches of government, and consumers, etc; (ii) price regulation theory and administration—possibly comprising sub-units in financial analysis, determining the value of capital, procedures for undertaking tariff reviews, etc; (iii) managing concessions—generic issues associated with competitive bidding processes; managing compliance, etc; (iv) anti-trust law and policy—covering key elements of market and competition analysis, public benefit assessment; managing the enforcement process etc; (v) community relations—covering the role of consumers in the regulatory process; the theory and practice of public decision making; media relations etc; and (vi) administrative law for regulators—basic concepts of administrative justice and the appeals process viewed from a regulator’s perspective. The provision of training would be coordinated by the La Paz-based technical advisor. Actual training would be conducted in La Paz with leading local or foreign experts.
- **Support for “twinning” programs with regulatory institutions in other countries.** “Twinning” arrangements between *CONARE* and more experienced regulatory agencies provide a source of ongoing support which can be tapped as technical assistance, training or staff-development opportunities. A number of US regulatory institutions already engage in arrangements of this kind and might be persuaded to “twin” with *CONARE*. It is possible that some of the more experienced Latin American agencies might also provide useful “twinning” partners. In either case, however, the twinning agency will lack its own financial resources for an activity of this kind. Financial support under this program would be targeted to travel and other out-of-pocket expenses incurred by both agencies. In addition to formal training activities in La Paz, Commissioners, Superintendents and senior *CONARE* personnel would benefit from informal visits with experienced regulatory agencies in the US,

Europe and elsewhere in Latin America, augmented by informal contacts made through targeted overseas conferences.

Cost Estimate

17. The total estimated cost of the program outlined above is US\$1.5 million, of which US\$1.3 million would be eligible for financing under the proposed IDA Credit. Details of the estimates for individual components are contained in the following table:

Table 2 - Estimated Cost of Technical Assistance to *CONARE*
(US\$)

<i>Item</i>	<i>Total Cost</i>	<i>Financed by Others</i>	<i>Proposed for IDA Credit</i>
<i>Technical Advisor</i>	400,000	0	400,000
<i>Consultant Studies</i>	400,000	0	400,000
<i>Training</i>	400,000	100,000	300,000
<i>Twinning & Overseas Visits</i>	300,000	100,000	200,000
<i>Total</i>	1,500,000	200,000	1,300,000

Telecommunications Sector Reform

Background and Sector Strategy

18. Bolivia has one of the worst telecommunications systems in Latin America (*see box*). The Government has concluded that telecommunications service and penetration levels in Bolivia will not significantly improve without wide-ranging reforms in the regulation of the sector and the management of the long-distance and local companies. While *ENTEL*, the long distance public enterprise that is part of the capitalization plan, requires no new capital and little investment, the local service cooperatives require significant amounts of new capital and investment resources. Thus, the Government plans to bundle the long distance and local services together, and to attract private investment capital in the sector in order to provide better and more services to the population. The Government has agreed that this can best be achieved by stimulating fair and open competition for the provision of telecommunications services among a group of private agents, working within a framework of effective government regulation.

19. The Government has committed itself to establish a new legal and regulatory framework for the telecommunications sector and to find a mechanism to recapitalize the entire sector prior to negotiations for the forthcoming IDA Capitalization Program Adjustment Credit. The strategy to capitalize the entire sector, which has been agreed to by IDA and the Government, would involve first transforming *ENTEL* into a mixed corporation (*ENTEL SAM*), comprised of the Government's shares as well as those purchased by *ENTEL* workers.

All telephone cooperatives would then be invited to join *ENTEL SAM* and thereby participate in the sector's capitalization. A new corporation will then be formed by the merger of *ENTEL SAM* and the cooperatives, called *ENTEL SA*. This corporation will be capitalized by issuing new shares to private investors, through a public bidding process. The strategic partner will receive management control over the corporation through a management contract, and up to 50% of *ENTEL SA* shares. At the same time, the Government's shares will be transferred to all adult Bolivians and held in trust until pension funds are established to manage these accounts.

20. The Government will sign a concession contract with *ENTEL SA* with the following features: (i) *ENTEL* will be allowed exclusive rights for five years to provide long distance and international basic voice services, in the whole territory of Bolivia; (ii) *ENTEL* will also be given the rights for exclusive provision of local service for five years in those areas where the former local telephone cooperatives have joined *ENTEL*; and (iii) *ENTEL* will be allowed to compete in the provision of local service in areas where the local telephone coops decide not to join with *ENTEL*--in order to improve the quantity and quality of services. The purpose of the transition period is to give *ENTEL* the opportunity to make necessary adjustments under the new structure, the new regulatory framework, and in view of its new obligations. *ENTEL* will have the obligation to offer telecommunications services to rural areas, including those that are now are being provided by *ENTEL* and another company, either directly or through their specialized subsidiaries. The levels of coverage, maintenance, quality of service and areas of operation will be specified in each concession agreement.

21. The Government intends to present a Telecommunications Law to Congress for passage with the following characteristics. It will: (i) delineate the specific responsibilities of the Superintendency of Telecommunications; (ii) define the principles for new tariff structures and interconnection charges to promote efficient development of the sector; and (iii) facilitate immediate private sector entry into most aspects of the telecommunications sector (leased private lines, cellular, data transmission and other value added services). The draft Law specifies that where there is no competition, tariffs will be regulated by the Superintendency using methods which incorporate an automatic adjustment formula. Initial tariffs during the transition period will be calculated based on the cost for each class of service, and considering a reasonable profit margin. Adjustments will be based on price cap methodology. The draft Law envisages obligatory interconnection of public telecommunications networks, in a way that will permit equal and nondiscriminatory interconnection.

Telecommunications in Bolivia

Bolivia's telephone density is among the lowest in the world, quality of service is poor, and long distance tariffs rank among the highest. The structure of Bolivia's telecommunications sector is unusual in that, while the long-distance and international networks are owned and operated by a monopoly public enterprise, its local network is fragmented into 22 independent cooperatives. The long distance company is inefficient and, in general, the cooperatives' performance and financial prospects are bleak. The annual US\$20-25 million transfer payment from the long distance company to the Government are funds that should have been reinvested to develop the local network. In addition to inadequate interconnection charges, the local cooperatives' financial performance has suffered since municipalities have not allowed local companies to charge tariffs needed to cover their operating expenses plus investment needs. To maintain and begin the expansion of Bolivia's telephone service will require an investment of more than US\$600 million during the next decade, concentrated almost entirely in the local service network.

Technical Assistance Requirements

22. The major requirements for telecommunications sector reform are: (i) specific consulting and investment banking assistance for the capitalization of *ENTEL*; and (ii) training and equipment needs of the Superintendency of Telecommunications within *CONARE*.

23. **Capitalization of ENTEL:** A number of consultants and advisors with different types of expertise will be required to prepare for and successfully complete the capitalization process. The use of consultants will put an added pressure and responsibility on the Telecommunications Working Group to coordinate and supervise the consultants to get the best use and benefit of the advisory group. A general rule is that a few of the highest quality advisors is much better for the process than several consultants doing smaller independent projects. Following is a description of the key consultant requirements:

- **Financial Auditing, Accounting and Tax Advisors:** This group of advisors should be limited to the largest international accounting and consulting firms. One of these firms will be contracted to prepare financial statements of the companies on the basis of Generally Accepted Auditing Principles in Bolivia and the United States. This work will include the subcontracting of an engineering firm to prepare an inventory and valuation of the fixed assets of the companies according to technical and accounting standards. Audits will be required for the year ended 1993 and a short period at a specified period of time just prior to the capitalization. The auditing firm for *ENTEL* should be contracted as soon as possible while the auditing firm for the cooperatives (could be the same firm) should not be contracted until after the Telecommunications Law is passed. Key products related to this consultancy are: the audited financial statements, asset inventory and valuation and *valor de libros*. Terms of reference have been prepared for this work.
- **Financial Consultant:** This advisor will be responsible for preparing a business plan for the companies to be capitalized based on a 10-year planning period. This business plan can be used as the basis for preparing the discounted cash flow valuation *valor financiero*. Preparation of the business plan for the entire sector will include the preparation of key inputs such as: tariff structure, new line expansion and line replacements, productivity improvements, debt service, taxation, etc. This effort will be completed based on a coordinated effort between the financial consultant, work groups within the companies, and independent experts in the areas of tariffs and network engineering. Qualified consultants in this category can include the "Big Six" firms listed above and smaller "boutique firms" who specialize in telecommunications valuations. Key products include the 10-year business plan for the company or companies and the *valor financiero*. Terms of Reference have been prepared for this work.
- **International and Local Legal Advisors:** This advisory group will be responsible for investigating all legal issues and providing recommendations. The Ministry of Capitalization has decided to match international legal advisors specialized in telecommunications transactions with local legal advisors. International advisors best qualified in this field are those that already have experience in privatizations of telecommunications companies. The Government intends to contract legal advisors as

soon as funding is available. Local independent legal advisors may be need to investigate specific issues such as the cooperative transformation and capitalization and other specific aspects related to preparation and presentation of the law to the Congress. Key products include the telecommunications law and regulations, concession contracts, buy/sell agreements, company statutes, etc. Terms of reference have been prepared for this work.

- **Investment Bankers:** This advisory group is primarily responsible for the world-wide promotion, preparation of capitalization strategy, and final sale of the new shares to the pre-qualified bidders. This advisor can also be asked to prepare the *valor financiero* based on the business plans prepared by the financial consultants. Advisors in this include the most prestigious merchant banks with telecommunications privatization and merger and acquisitions experience. It is expected that the merchant bankers will not be contracted until after the financial consultants have prepared the business plans.

24. Establishment of the Telecommunications Superintendency: The main requirements for establishing the Telecommunications Superintendency within *CONARE* are for staff training, and for some computer equipment and specialized equipment for frequency monitoring. The specific technical assistance needs for this purpose are:

- **Training,** in the: (i) economic and financial aspects of telecommunications regulation, including price-cap and other regulatory pricing mechanisms and the accounting and financial requirements of regulation; (ii) technical aspects of regulation, particularly those referring to frequency spectrum management and planning, localization and solving interference problems between stations; (iii) legal aspects of regulation, specifically those related to concession contract enforcement and monitoring, resolution of disputes between operators and between the regulatory entity and the Government, and resolution of complaints and disputes between consumers and operators; (iv) technical aspects of interconnection between operators, and quality of service assessment. Under the proposed training program, a twinning arrangement between the Bolivian Superintendency of Telecommunications and a foreign telecommunications regulatory agency will be established. Staff from the Superintendency of Telecommunications will go on short missions to the foreign agency to receive "on-the-job training. The program will also finance the sending of the Superintendency's staff to attend short seminars on telecommunications regulatory issues.
- **Equipment for the Regulatory Agency:** Frequency monitoring and computer equipment will be required for the Superintendency of Telecommunications. Frequency monitoring equipment is required to enable the regulator to enforce the spectrum regulations. For this purpose, the entity should be equipped with frequency monitoring equipment of national coverage. Three stations will, initially, cover the major centers of Bolivia, in La Paz, Santa Cruz and Cochabamba. Computer systems will be required to access a data base of frequencies as well as a data base of technical and financial data of the operators.

Cost Estimate

25. The total estimated cost of the program for telecommunications reform and the capitalization of *ENTEL* as outlined above is US\$9.8 million equivalent, of which US\$6.3 million is being considered for financing under the proposed IDA Credit. Details of the estimate for individual components are contained in the following table:

Table 3 - Estimated Cost of Telecommunications Reform and the Capitalization of *ENTEL* (US\$)

<i>Item</i>	<i>Total Cost</i>	<i>Financed by Others</i>	<i>Proposed for IDA Credit</i>
<i>Capitalizing ENTEL</i>			
- <i>Legal Advisors</i>	660,000	200,000	460,000
- <i>Financial/Technical Advisors</i>	1,360,000	300,000	1,060,000
- <i>Other consultants</i>	680,000	200,000	480,000
- <i>Investment Bank</i>	2,460,000	2,000,000	460,000
<i>Regulatory Superintendency</i>			
- <i>Advisors</i>	160,000	0	160,000
- <i>Training</i>	280,000	100,000	180,000
<i>Regulatory Equipment</i>			
- <i>Frequency monitoring</i>	3,500,000	500,000	3,000,000
- <i>Computer hardware/software</i>	700,000	200,000	500,000
Total	9,800,000	3,500,000	6,300,000

Aviation Sector Reform

Background and Sector Strategy

26. The proper organization of the aviation sector is crucial for the development and integration of Bolivia, as well as for assuring the safety of air travelers. Bolivia's aviation sector is characterized by relatively high state intervention and lacks a clear and effective regulatory framework. This has translated into inefficiencies in the provision of air traffic and airport-related services. As part of its reform agenda, the Government has already passed Supreme Decree 21060 which deregulated domestic air traffic tariffs. The impact of this ruling has already created stronger private competition in the market.

27. The Government wishes to restructure the sector to promote private sector participation, make domestic and international air service more efficient and reduce government involvement when inappropriate. The three basic tenets of the reform program are dealing with the: (i) international and domestic airline sectors; (ii) airports sector; and (iii) adaptation of the institutional and regulatory framework. The Government proposes to capitalize *LAB* in a manner that fosters competition in the domestic airline sector. The

Government also wishes to develop a level playing field by eliminating implicit subsidies to individual airlines, particularly in the case of *Transportes Aereos Militares (TAM)* and *Transportes Aereos Bolivianos (TAB)*. Domestic routes to non-commercial destinations will be auctioned to the domestic airline that requires the lower compensation. The Government will either convert *TAM* and *TAB* into commercial enterprises that function within the competitive market or they will discontinue commercial services and be integrated into the military sector.

28. Concerning the airports sector, the Government intends to restructure *AASANA*, the airport services public enterprise, so that: (i) most of the airport-related activities, excluding air traffic control services, are transferred to the private sector; (ii) a redimensioned *AASANA* (most probably a new entity) will retain responsibility only for operating air traffic control services; (iii) airport administration is decentralized through the creation of regional airport authorities, with private sector and regional entities' involvement and; (iv) airport tariffs and rates are more comparable with those in neighboring countries. A Supreme Decree that reduces existing Bolivian airport tariffs and fees by 15% has been submitted for approval.

29. Concerning the institutional and regulatory framework of the aviation sector, the Government intends to: (i) adapt the current aeronautical legislation to the new organization in the aviation sector, as well as to the new laws submitted or in preparation (e.g., the Capitalization Law, sector's regulatory law, etc.); (ii) adjust the general aviation policy as well as the international aviation policy, to conform to the changes in the aviation sector; and (iii) create the civil aviation authority (regulatory body) for aviation related matters.

Technical Assistance Requirements

30. Technical assistance is required for (i) the capitalization of *LAB*; (ii) the restructuring and privatization of *AASANA*; (iii) the development of a suitable institutional and regulatory structure for the aviation sector; and (iv) the restructuring of the smaller domestic airline operations of *TAB* and *TAM*.

31. *Capitalization of LAB* will require the following inputs:

- *Specialized Consulting Firm*, in order to carry out: (i) a technical audit and valuation of *LAB*, including market valuation of the assets related to the air transport operation such as aircraft (seven B-727, one A-310, one B-707 and two Fokkers), ground handling equipment, spare parts, etc, and a market valuation of *LAB*'s routes in the period 1995-2000, including projected net operating profit of routes under different scenarios of load factor and fuel prices, taking into account existing competition. Market value of recent sales of airline routes (e.g., Delta and Pan Am, American Airlines and Pan Am, etc.), and comparative analysis with *LAB*; (ii) the preparation of a strategic plan (1995-2000) which would incorporate a "stand alone" strategic plan of the enterprise as if *LAB* were a private company, including a market strategy and its basic assumptions, a fleet renovation plan, projected passenger and cargo traffic figures and estimated operating income, operational costs (aircraft related, traffic related, aircraft property related and general administrative expenses), and financial projections; (iii) route synergy assessment based on proposed alliances with potential strategic partners, which would require identification of potential strategic partners for

LAB (based on present route structure plus **LAB**'s unused traffic rights), and a quantification of the synergy between **LAB** and the potential strategic partners. Terms of reference have been prepared for this work.

- **An Investment Bank** to design a capitalization plan, including (i) definition of pre-qualifications conditions, including required bidder's ownership structure in order for **LAB** to maintain flag carrier status, type and size of strategic airline partner required (e.g., number of RPK's per year, minimum average load factor, etc.), and financial requirements of the strategic airline partner; (ii) definition of the bidding conditions of the capital increase, including a proposed five year investment plan, a time period for exclusivity in the use of **LAB**'s international traffic rights, rights and veto power of the Bolivian Government, and a capitalization methodology for **LAB** (i.e., special reference to the possibility of capitalizing aircraft related assets); (iii) determination of the base value of **LAB**'s equity prior to the capitalization; design of an appropriate program for employee stock ownership participation; (iv) preparation of the Information Memorandum; and (v) execution of the capitalization plan, including preparation of a "road show", pre-qualification of potential investors, coordination of the arrangements for international public bidding, evaluation of bids and closing of transactions.
- **Corporate Lawyers**, to provide legal counseling to the capitalization process of **LAB**. These experts will prepare the necessary draft documents supporting the process, according to the existing legal framework in Bolivia, including: (i) assistance in pre-qualification of potential investors; (ii) preparation of bidding conditions; (iii) evaluation of the existing regulatory/legal framework for **LAB**'s operations as it may effect domestic markets (e.g., routes designation, fares policy, airport tariff policies, etc.) and international market (e.g., Bilateral, Open Skies Agreements, etc.) and a description of **LAB**'s traffic rights (use and unused); (iv) preparation of a legal audit; and (v) preparation of document changes in the by-laws and for the shareholder's assembly of **LAB**.
- **Financial Auditors**, to develop the accounting audit of the financial statements of December 31, 1993 as well as for the financial statements of the selected transaction date (i.e., shareholders assembly).

32. **Restructuring and privatization of AASANA** will require:

- **A Specialized Consulting Firm** to undertake a restructuring study of the airports in Bolivia according to the following guidelines: (i) division of the functions of **AASANA** into air navigation services (i.e., air traffic control, overflight services, communications, meteorology, approach and landing, etc.), and airport operations (i.e., aircraft-related services, passenger related services and administration of concessions); (ii) creation of a new Air Navigation Services institution under the supervision of the Civil Aviation Authority (i.e., Subsecretary of Aeronautics or similar) and with provision of services nationwide; (iii) creation and corporatization of regional airport authorities for the administration of the airport services; (iv) analysis of the financial system of airports in Bolivia and development of a new system according to the proposed National Airports structure (i.e., revenue and income

- allocation between the different participants - Civil Aviation Authority, Air Navigation Services, Airport Authority, etc.); and (v) the preparation of recommendations of privatization strategies for the different airports authorities (e.g., master concession, multiple concessions, private ownership, private build/own/operate/transfer schemes, long term lease, etc.)
- **Corporate Lawyers** to provide legal counseling to the restructuring and privatization process of **AASANA**. These advisors will prepare the necessary draft documents supporting the process, according to the existing Bolivian legal framework.
 - **Investment Banks**, for cases where the size of the airport operation is relatively important for investment purposes (i.e., Santa Cruz, La Paz and Cochabamba), design and execute the privatization program for the selected airport authority. In cases where the size of the airport is relatively less important the use of a financial advisor for the execution of the privatization strategy will be sufficient.
 - **Financial auditors** to develop the cost center financial statements for each participant prior to the restructuring of the National Airport System.
33. Development of an appropriate **institutional and regulatory framework** will require:
- **A Specialized Consulting Firm or Advisor** to: (i) prepare the analysis of the **areas subject to regulation** (e.g., aviation and safety standards, price setting and competition, environmental standards, air traffic control, airport concessions, etc); (ii) develop the **institutional framework** of the sector, including specific definition of the role of the **Dirección General de Aeronautica Civil**, the centralized regulatory agency and any other institution affecting the process (e.g., **Fondo Nacional de Aeronautica**); (iii) complete the necessary preparatory work for the modernization of the **regulatory authority** of the aviation sector (institutional set-up, structure of the board, internal procedures, etc); review the current **aeronautical legislation** in Bolivia. These experts will prepare, if needed, new regulations to conform with the aviation sector's reform plan and assist the Government to prepare an appropriate proposal for Bolivia's **international aviation policy** which would support this plan.
34. **Restructuring of TAM and TAB** will require:
- **A financial advisor**, to develop a restructuring study of the air transport operations of TAM and TAB. The study will analyze two options: (i) the potential corporatization of passenger-related activities and further privatization of the enterprise and (ii) the discontinuation of commercial services and full integration into the military sector. The advisor will also assist the development of a system to auction non-commercial routes to the private airline that requires the lowest level of compensation.

Cost Estimate

35. The estimated cost of the program outlined above is US\$3.44 million of which US\$1.92 million is proposed for financing under the proposed IDA Credit. Details of the estimates for individual components are contained in the following table:

Table 4 - Estimated Cost of Technical Assistance to the Aviation Sector
(US\$)

<i>Item</i>	<i>Total Cost</i>	<i>Financed by Others</i>	<i>Proposed for IDA Credit</i>
Capitalization of LAB			
- Project Manager	120,000		120,000
- Specialized consulting firm	330,000	100,000	230,000
- Investment bank			
- Retainer	320,000		320,000
- Success Fee	500,000	500,000	
- Corporate Lawyers	100,000		100,000
- Financial Auditors	50,000	50,000	
- Public relations firm	80,000		80,000
Restructuring & Privatization of AASANA			
- Specialized consulting firm	750,000	720,000	30,000
- Financial auditors	80,000	80,000	
- Corporate lawyers	150,000		150,000
- Investment bank	440,000		440,000
- Public relations firm	70,000		70,000
Institutional & Regulatory Framework			
- Specialized advisor	300,000	50,000	250,000
Restructuring of TAM & TAB			
- Financial advisor	150,000	20,000	130,000
Total	3,440,000	1,520,000	1,920,000

Classification of Technical Assistance

36. Technical assistance for this project includes the transfer and utilization of services, skills, knowledge and technology to: (i) carry out policy studies for sector reform and provide advice for the capitalization of key enterprises; (ii) support project preparation and implementation; and (iii) establish and enhance the institutional development of *CONARE*. The table below reflects the share of technical assistance resources that would be dedicated to these activities.

Table 5 - Classification of Technical Assistance
(in thousands of US\$)

<i>Item</i>	<i>Policy Support</i>	<i>Project Preparation</i>	<i>ID</i>	<i>Total</i>
<i>Project Preparation Facility</i>		1,000 (1,000)		1,000 (1,000)
<i>A. Ministry of Capitalization</i>	6,260 (3,180)			6,260 (3,180)
<i>B. Technical Assistance to CONARE</i>	300 (300)		1,200 (1,000)	1,500 (1,300)
<i>C. Telecommunications Sector</i>	5,160 (2,460)		440 (340)	5,600 (2,800)
<i>D. Aviation Sector</i>	3,140 (1,670)		300 (250)	3,440 (1,920)
<i>Total</i>	14,860 (7,610)	1,000 (1,000)	1,940 (1,590)	17,800 (10,200)

Note: Figures and parentheses indicate amounts financed by IDA.

Section B: Project Administration and Implementation

Project Implementation

37. Responsibility for implementing the project lies directly with the Ministry of Capitalization which is headed by and staffed with highly competent professionals who would receive substantial support through the technical assistance provided under this project and the other sectoral technical assistance operations which are planned. This support is already underway, financed in part by the PPF which was provided for this operation. The Minister of Capitalization is an experienced professional with previous management experience in both the public and private sectors. Competent and professional working groups established in each of the sectors are elaborating sector restructuring and enterprise capitalization plans. The working groups are receiving significant assistance from foreign advisors with hands-on experience in restructuring and privatization in their respective fields. The Government has assigned the President of each of the enterprises with specific day-to-day responsibility for monitoring and maintaining the pace of capitalization. The sectoral Secretaries are responsible for leading the working groups on sectoral reform issues. A Legal Working Group, working in close conjunction with the Ministry of Justice, has been overseeing and

coordinating the drafting of the necessary enabling legislation. A program has been developed for presenting this legislation to Congress in an orderly fashion once it reconvenes at the beginning of August. The Ministry has set-up a competent and fully-staffed procurement unit to deal with the large number of consulting contracts to be financed through the project and this group is already receiving training and other support from Bank procurement specialists. This Ministry is also responsible for contracting the initial support needed to establish *CONARE*.

38. These arrangements, which have been consolidated and strengthened since the appointment of the new Minister of Capitalization in April 1994, are already producing results and should ensure rapid and efficient implementation of this project and the capitalization and regulatory reform which it supports.

Procurement and Disbursement

Procurement

39. Procurement will be according to World Bank guidelines, and subject to normal Bank review procedures. *Consultant* services would be procured according to the relevant Bank procedures. Bolivian procurement rules will be modified through a Supreme Decree to allow procurement of consultants related to the capitalization program to be handled by the Government rather than through procurement agencies. The Draft Procurement Decree establishes authorization levels for contract awards based on the size of the consulting contract. After the usual selection steps, and with close involvement of the individual sectoral working groups, recommendations for the granting of contracts for services will be made by a Procurement Unit, to be formally established by the decree. Such recommendations will be reviewed by IDA. For consultant contracts, terms of reference for most of the major activities to be financed under the proposed Credit have already been prepared by the Government and agreed to by IDA, and are available in the Project Files. The Bank's standard forms of consultant contract would be utilized, including a short-form letter for direct contracting of individual consultants for short-term assignments.

40. *Goods* to be procured under the credit include an estimated US\$3.5 million in telecommunications regulatory equipment and computer equipment, an estimated US\$0.5 million of computer and communications equipment in the Ministry of Capitalization, and an estimated US\$0.5 million for the production of advertising and collateral materials. These will be procured as follows: (i) ICB for contracts valued at more than US\$150,000, using Bank-issued standard bidding documents; (ii) Local Competitive Bidding (LCB) for contracts valued at more than US\$25,000 and less than US\$150,000 (not exceeding US\$600,000 in the aggregate), using standard bidding documents approved by IDA; and (iii) for contracts valued at less than US\$25,000, through shopping procedures acceptable to the IDA (not exceeding US\$400,000 in the aggregate). Prior review will be mandatory for all ICB and LCB procurement as well as for the first contract procured through shopping.

Disbursements

41. Disbursements will be administered by the Procurement Unit in the Secretariat of Capitalization. A Special Account will be established within the Bolivian Central Bank for

the activities to be financed by this Credit. An initial deposit of US\$1 million (equivalent to four months of estimated disbursements) would be made into this account. Statements of expenditure will be used for disbursements of up to US\$25,000 equivalent in the case of goods. In all other cases, full documentation will be required. As detailed in *Schedule B* attached to this Memorandum, disbursements would be made against 100% of the net-of-tax costs of local and foreign consultants; 100% of training expenses; 100% of the CIF cost of imported goods and of the ex-factory cost of local goods; and 85% of the cost of locally-procured goods. Also, 100% of the net of taxes costs associated with the public information campaign would be financed. Retroactive financing for consulting activities and related equipment procured under Bank guidelines after May 1, 1994, is proposed, up to a limit of US\$1.47 million, equivalent to 10% of the proposed amount of the credit. The Project is expected to be completed by end-1997. The *closing date* is June 30, 1998.

Records and Auditing

42. Records and auditing will be the responsibility of the Procurement Unit, which will establish separate accounts for each component and will monitor all expenditures financed by the project. The Bolivian Central Bank will maintain separate records and accounts for all transactions under the credit. Project accounts, the special account and statements of expenditures will be audited each year by auditors satisfactory to IDA within 120 days after the end of the fiscal year. In addition to this financial reporting, a full progress report will be prepared and submitted to IDA every six months. This report will detail all project and related activities, report on progress in relation to agreed schedules, and identify any problems which may have been encountered and which could adversely affect the overall impact of the project. These reporting requirements were confirmed during negotiations.

**BOLIVIA - REGULATORY REFORM AND CAPITALIZATION
TECHNICAL ASSISTANCE PROJECT**

SCHEDULE ONE

KEY PROJECT ACTIVITIES

<i>Main Objectives</i>	<i>Project Component Activities</i>	<i>Expected Output</i>	<i>Timing Targets</i>
Strengthening the Capacity of the Ministry of Capitalization	Legal and privatization advisors	Sectoral reform laws and regulations in the hydrocarbons, electricity, telecommunications, mining and railways sectors and regulations for the aviation sector. Draft financial sector reform laws produced. Capitalization of 6 public enterprises and privatization of AASANA.	Start: Second Quarter 1994 Completion: Reform laws completed by first quarter 1995. Key regulations completed by end-1995 Capitalizations completed by Second Quarter 1997
	Establishment of procurement unit	Administration of all contracts to be awarded for sectoral reform and capitalization	Start: Second Quarter 1994 Completion: End 1997
	Public Information Campaign	Development of sectoral, national and international campaigns	Start: Third Quarter 1994 End: Third Quarter 1996
Strengthening the Institutional Capacity of the Regulatory Agency (CONARE)	Establishment of CONARE	Full-time technical advisor to help establish CONARE and provide on-site expertise	Start: Fourth Quarter 1994 End: Fourth Quarter 1995
	Consultant Studies	Organization and staffing of CONARE, development of policy and personnel manuals	Start: Fourth Quarter 1994 End: Second Quarter 1995

Main Objectives	Project Component Activities	Expected Output	Timing Targets
	Training Programs for CONARE Staff	Staff to gain familiarity with cross-sectoral issues such as the role of the regulator, concession management, anti-trust issues, community relations and administrative law.	Start: Fourth Quarter 1994 End: Second Quarter 1996
	Twinning arrangements	Contacts with regulatory agencies in other countries	Start: Fourth Quarter 1994 End: Second Quarter 1996
Telecommunications Sector Reform	Telecommunications Law	Technical support to help explain the law to the legislative branch	Start: Third Quarter 1994 End: Fourth Quarter 1994
	Telecommunications Regulations	Assistance in drafting the regulations	Start: Third Quarter 1994 End: Third Quarter 1995
	Training of CONARE telecommunications superintendency staff	Training to gain familiarity in the legal, economic, and financial aspects of regulation, frequency monitoring and management, interconnection issues, etc.	Start: Fourth Quarter 1994 End: Second Quarter 1996
	Installation of specialized equipment for the Telecommunications Superintendency	Knowledge and proper use of equipment by regulatory staff	Start: Second Quarter 1995 End: Fourth Quarter 1995
Aviation Sector Reform	Preparation of regulations for the aviation sector	Assistance in drafting regulations	Start: Second Quarter 1994 End: End-1994

Main Objectives	Project Component Activities	Expected Output	Timing Targets
	Capitalization of LAB	Specialized consulting firm to prepare a technical audit and valuation & strategic plan; financial auditors to audit company; investment bankers for transaction; corporate lawyers for the capitalization process	Start: Third Quarter 1994 End: First Quarter 1995
	Restructuring of AASANA	Consulting firm to implement restructuring study of the Bolivian airports system. Investment bankers, corporate lawyers and financial auditors to help with the privatization of airports.	Start: Third Quarter 1994 End: Second Quarter 1997
	Restructuring of TAM & TAB	Financial advisor to analyze prospective operations and prepare a restructuring, privatization or liquidation proposal	Start: Fourth Quarter 1994 End: Fourth Quarter 1995

Note: The Ministry of Capitalization is responsible for implementing all project components.

REGULATORY REFORM CAPITALIZATION TECHNICAL ASSISTANCE PROJECT

ID	Name	Duration	1994			1995				1996				1997		
			Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3
28	Telecommunications Sector Reform	427d		[Summary bar]												
29	Information Campaign	60d		[Milestone]												
30	Draft Telecommunications Regulations	260d		[Progress]	[Progress]	[Progress]	[Progress]									
31	Training Superintendency Staff	390d		[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]			
32	Installation of Equipment	130d						[Progress]	[Progress]	[Progress]	[Progress]	[Progress]				
33	Aviation Sector Reform	818d		[Summary bar]												
34	Preparation of Regulations	165d	[Milestone]	[Progress]	[Progress]	[Progress]	[Progress]									
35	Restructuring of AASANA	720d		[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]
36	Restructuring of TAM & TAB	260d		[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]	[Progress]			

Project:
Date: 8/14/94

Critical [Progress bar]
Noncritical [Progress bar]

Progress [Progress bar]
Milestone [Diamond]

Summary [Summary bar]
Rolled Up [Diamond]

