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PROJECT PAPER

ON RESTRUCTURING THE

BOLIVIA: ROAD REHABILITATION AND MAINTENANCE PROJECT

November 29, 2007

Sustainable Development Department
Latin America and the Caribbean Region

BOLIVIA
Road Rehabilitation and Maintenance Project

Project Paper

Latin America and Caribbean Region
LCSTR

1. Data Sheet

Date: November 29, 2007 Country: Republic of Bolivia Project Name: Road Rehabilitation and Maintenance Project Project ID: P068968				Task Team Leader: Maria Marcela Silva Sector Manager: José Luis Irigoyen Sector Director: Laura Tuck Country Director: Carlos Felipe Jaramillo Environmental Category: B				
Borrower: Republic of Bolivia Responsible agency: <i>Administradora Boliviana de Carreteras (ABC)</i>								
Revised estimated disbursements (Bank FY/US\$m)								
FY	2003	2004	2005	2006	2007	2008	2009	2010
Annual	5.0	14.6	12.7	13.5	7.3	11	19.5	12
Cumulative	5.0	19.6	32.3	45.8	53.1	64.1	83.6	95.6
Current closing date: December 31, 2007 Revised closing date: December 31, 2009								
Indicate if the restructuring is:								
Board approved No RVP approved Yes								
Does the restructured project require any exceptions to Bank policies? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Have these been approved by Bank management? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Is approval for any policy exception sought from the Board? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No								
Revised project development objective/outcomes <i>[If applicable]</i> Not applicable								
Does the restructured project trigger any new safeguard policies? If so, click here to indicate which one(s) No								
Revised Financing Plan (US\$m.)								
Source	Local		Foreign		Total			
Borrower	141.2		75.0		216.2			
IBRD/IDA	55.4		40.2		95.6			
Others	4.2		2.8		7.0			
Total	200.8		118.0		318.8			

2. Introductory Statement

1. This Project Paper seeks the approval of the Regional Vice-President to introduce the following changes in the Bolivia Credit No. 3630 Road Rehabilitation and Maintenance Project, (the Project), and any accompanying amendments to the project's legal documents: (i) extending the closing date of the project from December 31, 2007 (original closing date) to December 31, 2009, (ii) including the rehabilitation of an additional 180 km of roads in the Beni region that were affected by the floods that severely impacted the country in the past months; and (iii) reallocating uncommitted funds from existing categories to finance the emergency works and supervision activities.

3. Background and Reasons for Restructuring

2. *Project Performance.* The SDR62 Credit (originally US\$77 million which due to variations in the exchange rate between the US\$ and the SDR has increased to about US\$95 million) was approved on March 15, 2002, signed on April 23, 2002 and declared effective on November 21, 2002.

3. The Project Development Objective (PDO) is to improve road transitivity and accessibility through the rehabilitation of key segments of the national and prefectural (secondary) network and to strengthen the capacity at both levels to manage road assets. The project includes the following **Parts**: **(A)** the rehabilitation of two priority segments of the national road network (Calamarca-San Pedro and Boyuibe-Yacuiba); **(B)** a pilot component for the rehabilitation of secondary (departmental) roads; **(C)** a road maintenance and resurfacing program; **(D)** technical assistance for studies and training; and **(E)** an institutional development component.

4. Currently, about 57% of credit proceeds have been disbursed (about US\$54 million out of US\$95 million). The disbursed amount pertains mainly to the **rehabilitation works under Part A** of the Project, some **resurfacing works under Part C.2** of the Project; consulting services for the supervision of the above mentioned works under **Part D** and technical assistance under **Part E**. About 75% of the undisbursed balance is related to the resurfacing component under **Part C.2**, 12% is related to the rehabilitation of secondary roads under **Part B** and an additional 8% is related to the rehabilitation component under **Part A**. A significant portion of the uncommitted balance is associated to the variations in the exchange rate; however said differences are needed to: (i) compensate for the increase in the cost of road works experienced in the region since 2004 mainly due to the increase in the cost of asphalt (an overall increase of 112% has been observed between 2004 and 2007); and if approved, (ii) finance the emergency works in the Beni region.

5. The delays and issues faced during project implementation are primarily due to the convergence of the following factors : (i) a highly politicized institutional restructuring process (between the former Servicio Nacional de Caminos-SNC- and the Administradora Boliviana de Carreteras-ABC) following the change-over of the administration in 2006, that generated great uncertainty, hindered decision making, and resulted in several months of inactivity; (ii) unexpected external factors (mostly country-related) plaguing the

implementation of a relatively straightforward resurfacing component; (iii) longer than expected preparatory timeframes required for the secondary roads component lingering its implementation; (iv) emerging technical problems in the rehabilitation works of some segments of the Boyuibe-Yacuiba corridor requiring a special technical audit to establish causes and possible solutions; and most lately; (v) the aftermath of the floods that affected the country in early 2007, demanding the redirection of the implementing agency's efforts to attend under emergency response, the most vulnerable roads (see Annex 1 for further details).

6. Even though some of the above-mentioned problems had been identified in 2005 and at the time, specific measures were discussed to address them, the institutional meltdown that followed the Government's announcement of SNC's liquidation, created a generalized activity slowdown. Substantial delays in the decision making process during the transition period aggravated the problems which led to the downgrading of the project ratings to Moderately Unsatisfactory in June 2006.

7. Ever since and almost up to June 2007, the project remained idle while the new institutional set-up was designed and all bylaws and regulations for its operation were prepared and approved. Even though conditions are finally being reestablished so as to revamp the project (as explained in further detail below), it is not possible to complete the civil works components within the remaining implementation period as ongoing works, once reinitiated, would require at least 7 months to be finalized and new works would require at least 18 months to be procured, contracted and executed.

8. Agreed Action Plan to seek approval for the Amendment. Given the institutional issues described above and the need to encourage decision making, in June 2007, the team agreed with ABC on a realistic and forward-oriented Action Plan to be implemented before end-September 2007, which included five areas in which ABC would need to demonstrate substantial progress to have the project back on a sustainable track. The five areas are: (i) consolidating ABC's institutional capacity enabling a satisfactory appraisal of the same; (ii) organizing a workshop to prepare a strategy to strengthen governance in ABC; (iii) reactivating the resurfacing component; (iv) addressing the construction issues on the faulty segments of Boyuibe-Yacuiba corridor; and (iv) bidding the emergency works for the Beni region.

9. On October 2007 a mission was carried out to verify compliance with the agreed actions so as to justify decisions regarding the project ratings, its restructuring, and extension. The overall conclusion of this review was that after more than 16 months of inactivity, ABC's management has taken decisions to address the issues and reactivate the project components. The reactivation of disbursements under the project represents key evidence of this. ABC has already shown substantial progress on all the institutional and operational aspects of the Action Plan:

- (i) ***Consolidating ABC's institutional capacity enabling its satisfactory appraisal:*** Since its creation in November 30, 2006, ABC has taken several essential steps to

become rapidly operational and to strengthen its institutional capacity¹. While a formal appraisal of ABC's institutional capacity will need to wait until the newly approved organizational structure is fully staffed (expected by end of March 2008), ABC provided evidence of all actions being taken for the implementation of the new institutional set-up. The envisaged results-oriented operational paradigm is satisfactory². ABC is committed to undertake key actions that will help protect the new entity from some of the vulnerabilities faced by the former SNC (of particular relevance is the support to a proposed study to improve governance in the road sector).

- (ii) **Organizing of a workshop on governance to prepare a governance strategy for ABC.** A first internal workshop was carried out in September, as a result of which, several risk areas have been identified and a general Governance Map has been delineated. By December 2007 a second workshop with the private sector will be carried out to further develop the Map and identify possible mitigation measures.
- (iii) **Reactivating the resurfacing component.** During the past 4 months ABC has managed to satisfactorily address the main issues concerning the resurfacing contracts and as a result, today, out of 20 contracts awarded in 2004: 11 have been finalized; 6 have been reinitiated and 3 has been rescinded. With the reactivation of these works, disbursements under this component are expected to increase significantly over the following months (a total of US\$18 millions are required to finalize these contracts). Actions to launch a second group of contracts have been taken (during the mission, discussions regarding possible adjustments to the standard contracts took place to take into account the effects that the significant increase in the cost of asphalt is having over these type of contracts).
- (iv) **Bidding the emergency works for the Beni region (four roads).** ABC has made satisfactory progress towards preparing the packages and procuring the emergency works to repair the roads damaged by flooding in the Beni region.
- (v) **Addressing the construction issues on the faulty segments of the Boyuibe-Yacuiba corridor.** Key decisions made during the last six months have allowed ABC to identify corrective measures to address the problems identified in the corridor and a road map has been delineated based on the preliminary results of the technical audit that was carried out. Upon receiving the final Audit Report (expected by end of December 2007) ABC would: (a) take legal action to liquidate the current works and supervision contracts enabling new interventions on the road to repair the defects; (b) review and fine-tune the technical studies for the recommended solutions presented in the audit report; (c) invite bids for the execution of the corrective works; (d) submit to the *Contraloría General de la República* the Audit Report for due process. In the mean time, ABC has been carrying out routine

¹ ABC has: (i) complied with the requirements of the November 2006 Decrees (including among others, the approval of the new organizational structure, evaluation of the staff transferred to ABC, approval of the regulations for the operation of a newly created National Roads Account); (ii) designated the 4 member of the Board of Directors and 6 managers (out of 10) through competitive processes; (iii) got approval for 2007 budget; (iv) got approval ABC's Institutional Strategic Plan for 2007-2011; (v) got approval of the bylaws and Manuals required by Law SAFCO 1178 (Administration and Governmental control); (vi) designed and implemented a transparency and accountability system; (vii) obtained ISO-9000 certification for its procurement management and quality control system.

² ABC's Basic Operational Design calls for an organization that: (i) performs around three main principles -results, transparency and social control; and (ii) is structured by processes to optimize the functional specialization and facilitate accountability and control.

maintenance and horizontal markings in critical spots to prevent further deterioration and accidents. ABC has indicated that if the Credit extension is granted they would request the Bank to finance the additional interventions with the uncommitted funds still available under this component (US\$3.9 million of credit proceeds).

10. Progress has also been achieved under the pilot component with the Prefecturas. After almost four years, three Prefecturas finally have joined this pilot component and procurement of works has commenced in one of them: the Prefectura de Oruro is ready to commence rehabilitation works on two bridges and is ready to initiate the bidding process to rehabilitate a 35 km long road. Chuquisaca has submitted the required information for the rehabilitation of an 87 km long road. These Prefecturas are waiting for a definition on the extension of the Credit before they initiate the works since they don't have any other sources of funding for these projects and the execution period goes beyond December 31, 2007.

11. Based on the above evidence of decision making and project revamping, the team has recommended to request Management's approval of the Credit amendment to extend the closing period for two years and reallocate uncommitted funds to a new category to be created to finance the emergency rehabilitation works in the Beni region. During the October 2007 mission ABC presented to the team a detailed Plan to complete the project within the extended period.

12. Audits: There are no overdue audit reports. The project audit reports for the fiscal year 2006 has been reviewed by the Bank and the report is acceptable. The auditors issued unqualified opinion on the project financial statements, including SOEs and Special Account. A qualified opinion on compliance with covenants and applicable laws and regulations was issued due to non compliance with certain implementation arrangements dealing with the road safety task group and delays in furnishing IDA with the progress reports for the project by the due dates. No material internal control weaknesses were reported which may affect the use of the project resources. The entity audit reports for SNC and ABC were also received and reviewed by the Bank. The auditors issued qualified opinions in both cases due mainly to qualifications relating to the balance sheet and treatment of certain adjustments and reconciliation and valuation issues with no direct impact in the IDA resources.

4. Proposed Changes

13. The proposed changes are:

- i. Extend the Project's closing date for two years until December 31, 2009 to complete the implementation of Parts A, B and C of the Project and the emergency works in the Beni region.
- ii. Modify **Schedule 1** of the Credit Agreement to include a new Category for the rehabilitation works in the Beni region (see Annex 2 for a further detail of the works to be included and its estimated costs).
- iii. Modify the project's description with regards to Part A in **Schedule 2** to reflect the additional 180 km rehabilitation works in the Beni region.

- iv. Reallocate SDR 3.7 million from Category 1(c) to finance up to 65% of the rehabilitation works in the Beni region and SDR 1.57 million from Category 4 to Category 2(a) to finance additional supervision activities.

14. The Prefecturas would provide local counterpart funds for the emergency works (35%).

15. The revised disbursements schedule taking into consideration the new closing date and the execution of pending activities is presented in table below.

Revised estimated disbursements (Bank FY/US\$m)								
FY	2003	2004	2005	2006	2007	2008	2009	2010
Annual	5.0	14.6	12.7	13.5	7.3	11	19.5	12
Cumulative	5.0	19.6	32.3	45.8	53.1	64.1	83.6	95.6

16. Emergency procurement (shopping) would be allowed for the four works in the Beni region. No changes are required to Schedule 3 since Other Methods of Procurement are already envisaged for Civil Works.

5. Analysis

17. The Bank team carried out an appraisal of the new rehabilitation works in the Beni region, from a technical, economical, environmental and social view point. From a technical perspective these works represent good engineering practice and the estimated costs of the works are deemed to be reasonable. Economic evaluations using the HDM-4 model show that the proposed investments yield satisfactory economic rates of return, above 12%.

18. The compliance with Bank's environmental and social safeguards was reviewed. From an environmental view point: (i) ABC prepared Environmental Mitigation Plans and detailed environmental specifications have been reflected in the bidding documents; (ii) an initial assessment of the Environmental Unit was carried out in October 2007 and was found acceptable; a final assessment will be carried out in March 2008. From a social view point: (i) a social plan to be implemented in the context of emergency response was prepared in consultation with SAT and has been depicted in the bidding documents (Annex 3); and (ii) during the site visits to the project it was confirmed that there are no encroachments within the right of way and no therefore no involuntary resettlements are expected.

6. Expected Outcome

19. The proposed changes will not modify the Project Development Objectives since the rehabilitation works in the Beni region will also contribute to improve road transitability and accessibility in the country.

20. In addition, the proposed amendment is not expected to affect the Outcomes established in Annex 1 of the Project Appraisal Document, since the rehabilitation works in Beni will also contribute to increase the percentage of the national road network in good condition, which is the only specific outcome related to the resurfacing component under

Part C.2 of the Project from which resources are being reallocated. The Bank team has requested ABC to carry out by September 2008 specific measurements on the surface and structural condition of the network (particularly roughness and deflection on the paved network) to have precise and objective estimates to be used as the relevant indicators (in particular the International Roughness Index –IRI) to monitor compliance with the agreed targets (with IRI>3 representing good condition, 3<IRI<5 fair condition and IRI>5 bad condition).

21. In terms of outputs: (i) the proposed changes will increase the total number of km of roads rehabilitated on the primary road network by about 180 km; and (ii) the total number of km of roads to be intervened under the periodic maintenance (resurfacing) component will reach approximately 2,000 km (the original target of about 3,000 km was re-assessed during the Mid-Term review since said target was based on tentative costs).

7. Benefits and Risks

22. *Benefits.* The approval of the amendment would enable the possibility for ABC to complete key interventions on the primary and secondary networks and to respond to the damages caused by the recent flood, restoring vital transportation links so that activities in transport-dependent sectors of the economy and critical services can be resumed. In particular, the extension of the closing date would allow ABC to: (i) satisfactorily conclude the rehabilitation works over the Boyuibe-Yacuiba corridor, (ii) continue implementing key periodic maintenance activities over the national road network, (iii) implement several interventions at the Prefectural level, and (iv) carry out the emergency works in the Beni region, all in line with the original Project Development Objectives.

23. Most importantly, the extension would allow the Bank to continue accompanying ABC in the ongoing institutional reform process. Bank involvement at this critical stage is essential to move forward in the institutional strengthening agenda seeking increased efficiency, accountability, and improved governance in the new road agency. Furthermore, the continued support to the implementation of ABC's annual maintenance and resurfacing Program is fundamental to ensure the consolidation of sound road management strategies for the long-term sustainability of the network. The Bank's institutional capacity assessment to be carried out once the new organization is fully operational provides a unique opportunity to build up the dialogue with ABC authorities regarding the implementation of measures that may be needed for strengthening ABC's planning, procurement, financial management, environmental and/or social areas.

24. *Risks.* Main risks are associated to the consolidation of the institutional capacity of the implementing agency and the feasibility of ensuring a smooth completion of pending activities taking into account the reform process that has been taking place in the past few months. To this effect:

- (i) An assessment of the final institutional arrangements will be carried out during the first semester of 2008 to identify areas where additional strengthening may be required, concentrating on topics such as: (a) selection and appointment of key

staff; (b) road asset management, planning and design; (c) procurement of works and services; (d) supervision of works; (e) environmental and social management; and (f) financial management and (g) financial sustainability of the road management strategy and investment program.

- (ii) A detailed list of pending activities to be implemented during the extended implementation period has been identified and a dated action plan has been agreed upon with ABC. Close supervision will be maintained.

25. Other risks that may be out of ABC's control include: (i) the lack of decisive action to move ahead on the implementation of the secondary roads pilot component; and (ii) weak capacity from the local construction firms to timely execute civil works included in the new procurement plan. The following, however, should be highlighted as positive aspects that help to mitigate said risks:

- (i) The Prefecto of Oruro is pre-financing the road works that have been included in the procurement plan while the possible extension of the Credit is approved. Two of said contracts have already been signed and a third project is ready to be bid. Similarly, the Prefectura of Chuquisaca has all the documentation ready to initiate the bidding process for the works included in the procurement plan, pending confirmation regarding the extension of the Credit. La Paz is fine-tuning technical aspects of the projects to be financed.
- (ii) The procurement of the second lot of periodic maintenance works is being organized in a way such that the lessons learned from the 2004 experience are taken into account (revising the standard bidding documents, providing bidders with more/better technical information regarding the actual condition of the roads to be intervened so as to reduce uncertainties, distributing procurement processes through out the year avoiding to concentrate the demand for works in a few number of months, planning the works according to the rainy seasons, taking into consideration the volatility of prices of road works, etc.).

In addition, a study of the capacity of the construction market in Bolivia will be carried out (funds from a Trust Fund were obtained for this purpose). The main objective is to develop a framework to assist government officials to understand the market in which a road project is or would be taking place at any given moment, to better judge the results of contract bidding from the competition point of view, and to improve governance of the Bolivian road sector. The study will review the practices and capabilities of the Construction Industry, particularly its contractors, consultants, insurers, and suppliers. During the October 2007 mission a meeting with representatives of the construction industry was carried out and they indicated their support to this study and their interest in contributing to the same.

Annex 1- Main factors that have affected Project Implementation

The delays and issues faced during project implementation are primarily due to the convergence of the following factors:

- *A highly politicized institutional restructuring process of the implementing agency following the change-over of the administration in 2006, that hindered decision making, resulting in several months of inactivity.* Since the new administration took office in January, 2006, the institutional reforms initiated in the 1990's have been at the center of political debate. The institutionalization of the national road agency (Servicio Nacional de Caminos -SNC) was no exception. As a result, the intention to liquidate SNC was announced at a very early stage of the new administrative period. The uncertainty introduced in the sector created a generalized activity slowdown. Substantial delays in the decision making process during the transition period aggravated the implementation challenges faced by the project.

Through the promulgation of Law 3507 of October 2006 the Government confirmed the decision to liquidate SNC and create a new road agency to take over the administration of Bolivia's national road network³. On November 30, 2006, with the enactment of four regulatory Decrees to Law 3507, the new Road Agency (Administradora Boliviana de Carreteras-ABC) became effective.

The Credit Agreement had to be amended to allow ABC to become the implementing agency, and as a result, disbursements were stopped for almost six months (until May 2007). At the time, given the uncertainties faced regarding the final outcome of the transition from SNC to ABC and the urgent need to move ahead with project implementation, the Bank adopted a two-phase approach to carry out the due diligence to assess the institutional risk of the new entity: (i) the Bank completed a preliminary assessment of the proposed institutional set-up and based on said preliminary documentation, the amendment, which included specific remedies in case the final outcomes were not satisfactory to the Bank, was signed; and (ii) by September 2007 the Bank would carry out a new assessment of the final outcomes to identify areas where additional strengthening may be required.

Ever since the announcement of the creation of ABC the Bank has been proactive and responsive to the needs of the new agency⁴. While the most cumbersome part of the

³ As explained by the Government, the liquidation of SNC was envisaged as a legal way out to confront problems that were hindering the entity's capacity to fulfill its road mission (the entity faced judicial liabilities for US\$42 million and BOL\$40 million that were demanding most of SNC managerial attention). The liquidator of SNC will assume the responsibility of dealing with said judiciary processes, enabling the new road agency, to focus its attention exclusively towards managing the road assets.

⁴ (i) An international consultant with significant experience in institutional reforms of road agencies and deep knowledge of SNC was recruited to accompany the new administration during the transformation period and to provide advice on the principles that should govern ABC's institutional set-up. This has been a coordinated effort with the *Inter-American Development Bank* (IADB) and the *Corporación Andina de Fomento* (CAF); (ii) Trust Funds resources have been obtained to develop a framework to assist government officials to understand the market in which a road project is or would be taking place at any given moment, to better judge the results of contract bidding from the competition point of view, and to improve governance of the Bolivian road sector; (iii) training on procurement procedures have been organized for the new staff; (iv) the Bank is participating in ABC's capacity building effort in

institutional transformation process has already taken place, this has had an important impact on project implementation. Until June 2007, the project remained idle while the new institutional set-up was designed and all bylaws and regulations for its operation were prepared and approved.

- ***Convergence of external factors plaguing the implementation of a relatively straightforward resurfacing component.*** The road resurfacing program under **Part C.2** as originally envisaged, called for the resurfacing of about 600 km of roads of the national road network each year (each road to be determined on an annual basis).

Even though this was one of the least risky components envisaged, a series of external factors have converged impacting its progress ever since the execution of the first group of resurfacing works started in 2004 (through 20 contracts covering a total length of 1,210 km). Most of said factors are country-related, including: (i) blockages due to the civil and social disturbances the country experienced in 2005; (ii) restrictions in supply of diesel in the country; (iii) delays in the availability and/or shortage of counterpart funds coming from the Prefecturas; (iv) inevitable difficulties that take place during the rainy seasons; and (v) unforeseen increases in the cost of asphalt.

The above, further affected by the institutional meltdown faced by the implementing agency as described above, has led to a significant extension of the contract periods (due to partial suspension of works at different stages), and delays in the procurement of new contracts (to make use of the uncommitted balances under this component and meet the project objectives).

- ***Longer than expected preparatory timeframes required for the secondary roads component, lingering its implementation due to weak institutional capacity both at the prefectural and national levels.*** The successful implementation of this component anticipated the need to ensure critical technical assistance from the national road agency (SNC/ABC) to the departmental road agencies given the relatively weaker institutional setups at the Prefectural level. A close coordination between SNC/ABC and the participating Prefecturas was envisaged for the identification and evaluation of subprojects to be implemented and the institutional strengthening of their road management strategies. However, this support has been less than expected due to the institutional problems faced by the national road agency and the fact that efforts have been concentrated on the implementation of its own components. Overall, the preparatory steps to fulfill the requirements to participate in the program (signing of agreements with the implementing agency, identification of works to be included, preparation of technical documentation, preparation of institutional strengthening programs, etc) have been more time-consuming. Continuous rotation of personnel at the Prefectural level has also had its role in the delays to complete all the steps.

road management and investment planning by financing the participation of a Bank's expert on the use and calibration of the planning tool HDM-IV.

- ***Emerging technical problems in the rehabilitation works of some segments of the Boyuibe-Yacuiba corridor requiring a special technical audit to establish causes and possible solutions.*** Even though the rehabilitation works for the Boyuibe-Yacuiba road were 96% completed in January 2005 (only horizontal demarcation was missing), the contractor had to repair at its own expense, crackings and other deformations that emerged on several km along the road. As a result of the repair works, the superficial appearance of this road is not optimal, with several segments heavily patched and deformed. At the time, the implementing agency was proposing to finance with credit proceeds a seal to enhance the superficial condition and increase the lifetime of the road. Such additional works would increase the cost of the project by approximately US\$3 million. The Bank requested to carry out an external technical audit to establish causes, clarify responsibilities among the parties, and evaluate possible solutions before any new interventions were performed. The procurement of said audit suffered a significant delay (partially due to the change in implementing agency) and the contract was only signed at the beginning of 2007. The final audit report has not yet been received by the implementing agency. It is expected that said report will recommend the required technical solutions to bring the road to a satisfactory standard.
- ***The aftermath of the floods that affected the country in early 2007, demanding the redirection of the implementing agency's efforts to attend under emergency response, the most vulnerable roads.*** This year the country experienced particularly large losses due to El Niño phenomenon, an abnormal weather pattern that occurs at irregular intervals. The scale of this year's occurrence of El Niño has overwhelmed the ability of both the central and local governments to adequately respond to the rehabilitation and recovery needs. Across the country, as many as 400,000 people were affected by the worse floods in 20 years. The humanitarian situation was most critical in Beni, which lies in the Bolivia's Amazon plain.

In February 2007, the Government of Bolivia requested the support of other countries and of multilateral organizations to face the effects caused by heavy rains and floods that affected the eastern lowlands of the country. The Bank offered to reallocate up to US\$8.75 millions of uncommitted funds from the Project for the reconstructions of some of the roads affected by these disasters.

On March 28, 2007 ABC submitted the emergency proposal which called for: (i) the emergency rehabilitation of four roads (180 km) in the province of Beni; (ii) emergency rehabilitation works of about 186.6 km on a road in the Pando region; and (iii) emergency rehabilitation of five roads in the Cochabamba and Santa Cruz regions. The rationale was that all these roads were impacted by the flood and needed emergency procurement (shopping).

A site visit to the regions was conducted to assess the damage to the roads and determine if emergency rehabilitation would be required. The mission concluded that, although the roads were damaged emergency response was only required in Beni. Resurfacing works were already planned for the other roads in the provinces of Cochabamba, Santa Cruz and Pando and would not require additional allocation. To

include the emergency works in the Beni region the Credit Agreement needs to be amended.

Annex 2- Proposed Rehabilitation Works

The proposal for supporting Bolivia's response to the flood consists of undertaking the following works:

Table 1. Inclusion of additional rehabilitation under emergency procurement

No.	Project	Length (Km.)	Amount (Construction)	Amount (Supervision)	Pari Pasu
1	San Borja - El Villar	35.3 Km.	1,400,000	80,000	35%
2	El Villar - San Ignacio	75.2 Km.	2,700,000	200,000	35%
3	San Ignacio - Los Puentes	67.0 Km.	2,900,000	220,000	35%
4	Los Puentes-Puerto Varador	3.0 Km.	400,000	40,000	35%
	TOTAL	180.5	7,400,000	540,000	

The above-mentioned emergency works aim at preventing the roads from being flooded in the future and at restoring their transitivity. To that effect, they will consist in raising by about 30 to 40 cm (sometimes more) the embankment upon which the pavement is constructed and eventually in critical spots in adding a 10 cm thick gravel wearing course. In addition, and in order to improve drainage at critical locations, new culverts will be installed. Such works fall within the broad category of road rehabilitation that the project originally intended to finance, except that given the circumstances; they can be qualified as Emergency Works. The estimated costs of the works are deemed to be reasonable.

Annex 3- Proposed Social Plan

The compliance of the additional works with Bank's environmental and social safeguards was reviewed and recommendations were made on the necessity of including a social plan and increasing environmental capacity.

a) **Emergency works in Beni:** Regarding the emergency projects to reconstruct the flood impact in the Beni region, ABC should prepare and be responsible for the execution of a Social Action Plan focused on the outcomes already stated in the Road Rehabilitation and Maintenance Project's PAD. These outcomes are: (i) to establish and maintain good relationships between ABC (ex SNC), contractor, local authorities and communities, (ii) to prevent and control potential adverse impacts, and (iii) to enhance the positive impacts. This Plan includes the following projects: (i) information to local authorities, (ii) information to local communities, (iii) employment generation during construction phase, (iv) environmental training and social sensitivity raising for work crews, (v) attention of potential claims, and (vi) training for road safety. The target of this Plan will be indigenous and non-indigenous communities.

This action plan should be disseminated among NGO's, indigenous organization at subnational level such as CEPIB, CEMIB, CIRABO, CIPOAP, and recognized church authorities (such as the Trinidad and Riberalta's Bishops). These organizations were consulted and are very worried about the lack of coordination and information about the emergency projects that are undergoing in the Region. After a better level of information is accomplished it is expected that these organizations would be organized in a type of "Civil Society Emergency Coordinator", in order to prevent or propose possible solutions to the following social risks:

- All Bolivia regions have broad ethnic and cultural diversity, and there are cases of exclusion and racism which may make it difficult for the project to effectively reach the poorest sectors due to the risk that elite groups might appropriate the projects.
- In some municipalities, especially those with more resources from state budget transfers which are experiencing rapid growth, there are rivalries and struggles for power between urban and rural zones.
- In some cases, the decentralization process is being handled by partisan interests; municipalities are identified in which no investments are made with prefecture's resources due to political party differences, and on the other hand support is concentrated in municipalities that support the party in power.
- The large amount of resources transferred to municipal governments and prefectures due to the increase in the IDH (Hydrocarbon tax) causes the PDDs (Departmental Development Plans) and PDMs (Municipal Development Plans) to be underestimated. This causes investments to be made without clear regulations and with an overlapping of responsibilities between both subnational levels. This could cause a loss of resources, a duplication of investments, and limited effectiveness.

- In some zones, prefecture and municipal investments are pressured by the need to invest, seeking political favor, and in some cases are pressured by interest groups, endangering protected areas and Original Community Territories. This creates a risk of confrontations between loggers and indigenous and peasant organizations over natural resources
- The weakness of indigenous peoples in some regions may cause their self-marginalization from regional planning processes and the consequent exclusion from investments that favor them.
- There is a lack of clarity in the differences between the roles and functions of municipal and departmental level which can lead to overlapping and duplication.

