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MEMORANDUM AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED CREDIT
IN THE AMOUNT EQUIVALENT TO SDR 6.8 MILLION
TO THE
REPUBLIC OF BOLIVIA
FOR A
HYDROCARBON SECTOR REFORM AND CAPITALIZATION
TECHNICAL ASSISTANCE PROJECT

JUNE 2, 1995

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CURRENCY EQUIVALENTS

Currency Unit	=	Boliviano (Bs)
US\$1.00	=	Bs 4.73
Bs 1.00	=	US\$0.21

GOVERNMENT OF BOLIVIA FISCAL YEAR

January 1 - December 31

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS USED

AC	-	Advisory Committee
BOE	-	Barrel of Oil Equivalent
CESICA	-	Comision Ejecutiva de Seguridad Industrial y Control Ambiental (Industrial Safety, and Environmental Control Unit)
CAPU	-	Capitalization Unit
CPAC	-	Capitalization Program Adjustment Credit
EIA	-	Environmental Impact Assessment
ENTE	-	Entity for Negotiations, and Promotion of Exploration and Production
E&P	-	Exploration and Production
HCS	-	Hydrocarbon Sector Superintendency in SIRESE
IDA	-	International Development Agency
IDB	-	Inter-American Development Bank
MEC	-	Sociedad Anonima Mixta (Mixed Economy Corporation)
MOC	-	Ministry of Capitalization
MOED	-	Ministry of Economic Development
MOF	-	Ministry of Finance
MOSDE	-	Ministry of Sustainable Development and Environment
NSC	-	National Secretariat of Capitalization
NSE	-	National Secretariat of Energy
NSOF	-	National Secretariat of Finance
NSONRE	-	National Secretariat of Natural Resources and Environment
PEU	-	Project Executing Unit
PPF	-	Project Preparation Facility
SIRESE	-	Sistema de Regulacion Sectorial (Multi-Sectorial Regulatory Commission)
YPFB	-	Yacimientos Petroliferos Fiscales Bolivianos (State Owned Oil Company)

REPUBLIC OF BOLIVIA

HYDROCARBON SECTOR REFORM AND CAPITALIZATION
TECHNICAL ASSISTANCE PROJECT

Credit and Project Summary

Borrower:	Republic of Bolivia			
Executing Agencies:	National Secretariat of Energy and National Secretariat of Capitalization			
Beneficiaries:	Ministry of Economic Development and Ministry of Capitalization			
Amount:	SDR 6.8 million (US\$10.64 million equivalent, including US\$1 million to be financed retroactively)			
Terms and Conditions:	Standard IDA terms with an amortization period of 40 years, and a grace period of 10 years			
Commitment Fee:	0.50 percent on undisbursed credit balances, beginning 60 days after the signing, less any waiver			
		<u>Local</u> <u>Foreign</u>	<u>Total</u>	
		(US\$ million equivalent)		
Financing Plan:	Government	2.66	--	2.66
	IDA	<u>1.86</u>	<u>8.78</u>	<u>10.64</u>
	Total	4.52	8.78	13.30
Poverty Category:	Not Applicable			
Environmental Classification:	B			
Net Present Value:	Not Applicable			
Staff Appraisal Report:	Not Applicable			
Map:	IBRD No 26624			
Project Identification Number:	BO-PA-6178			

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**MEMORANDUM AND RECOMMENDATION
OF THE PRESIDENT
OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED CREDIT
TO THE REPUBLIC OF BOLIVIA
FOR A HYDROCARBON SECTOR REFORM AND CAPITALIZATION
TECHNICAL ASSISTANCE PROJECT**

1. I submit for your approval the following memorandum and recommendation on a proposed development credit to Bolivia for SDR6.8 million, the equivalent of US\$10.64 million, on standard International Development Association (IDA) terms, with a maturity of 40 years, including a 10 years grace period. The Credit will assist in the financing of a **Hydrocarbon Sector Reform and Capitalization Technical Assistance Project** to support the Government's reform program of the hydrocarbon sector by establishing an appropriate legal and regulatory framework as well as by capitalizing Yacimientos Petroliferos Fiscales Bolivianos (YPFB), a fully state owned national enterprise.

Background

2. The oil and gas sector is vital to Bolivia, representing about 6.3 percent of GDP, 40 percent of Treasury revenues, 25 percent of public investment and 25 percent of exports. In 1993, sector revenues from domestic sales totaled US\$400 million, while natural gas exports to Argentina brought an additional US\$130 million that year. However, the State monopoly has limited investment and economic growth due to: (i) implicit barriers to entry by private sector in exploration and production; (ii) a regulatory and legal framework that does not provide the enabling environment needed to spur investment and develop an open, competitive and efficient private sector; and (iii) the lack of sufficient Government response to private investor concerns. The result has been cumbersome regulations and increased business costs.

3. With proven reserves estimated at more than 880 million barrels of oil equivalent (boe), potential reserves estimated at more than 4.8 billion boe and large unexplored sedimentary basins, the sector has strong potential for attracting foreign direct investment and providing needed resources for economic growth to Bolivia. But despite passage of the Hydrocarbons Law in late 1990, which expanded the scope for private sector participation, eliminated some tax dis-incentives, and achieved limited progress in attracting foreign investment, the sector has not registered significant progress. Petroleum product prices are still administered by the Government and, for some products, bear no relationship with border prices. The existing legal, regulatory and institutional framework in the sector, as well as the lack of an additional secure external market for natural gas exports, continue to inhibit foreign and domestic private investment.

4. Currently YPFB has a near monopoly on the hydrocarbon sector, controls and manages: 85 percent of liquids production, 75 percent of natural gas production, the entire pipeline transport network, all refining operations, as well as wholesale distribution of petroleum products and liquefied petroleum gas (LPG), natural gas, a limited number of service stations, and wholesale imports of diesel

oil. The Government is not only YPF's sole shareholder but also the de facto policy maker, and regulator. The National Secretariat of Energy (NSE) through its Dirección General de Hidrocarburos (General Directorate of Hydrocarbons- DGH) has supervisory authority in the areas of policy making, coordination, regulation, technical and safety control, monitoring of environmental norms and standards, and enforcing the Hydrocarbons Law and related regulations. Unfortunately, DGH lacks the human and financial resources as well as the expertise and experience to do its job effectively. As a result of the NSE weak institutional capacity, YPF finds itself playing the governmental role of policy maker and regulator.

5. **Government Objectives and Strategy:** Bolivia's most serious challenge in its efforts to accelerate growth and reduce poverty in the next five years is to remove the remaining barriers to investment by:

- reducing and rationalizing the role of the State.
- strengthening government's capacity to play the role of a policy maker and regulator.
- eliminating most monopolies in the productive sector, enhancing productivity and competitiveness, and fostering private investment.
- deregulating prices, enhancing the liberalization of capital flows and trade, and simplifying the tax regime.
- protecting the environment from potential adverse impacts in any area of hydrocarbon operations.

6. The new Government which assumed office in August 1993 has pledged to achieve these objectives. The centerpiece of the Government's political platform, the **Plan de Todos**, is a bold program of radical transformation of six major public enterprises including YPF, through a system of "**Capitalization and Democratization**". This program involves the transformation of YPF into two or more Sociedades Anonimas Mixtas (MECs - Mixed Economy Corporations)¹ by the acquisition by YPF's personnel of a specific number of shares. Management control of each MEC would be transferred to an investor or consortium of investors, which would not bid to buy existing assets, but invest in the MECs (up to the market asset value) to acquire up to 50 percent of the shares. This investment would be used to increase the MECs capital and expand investment in the sector. The State would then transfer its ownership in the MECs to the Bolivian people through shares that would be managed by a Pension Fund. Reconfirming its commitment to this capitalization program the Government has already enacted the Capitalization Law and created a separate Ministry of Capitalization (MOC) in March, 1994.

¹. To avoid repetition in the explanation of this concept, in the text the term MEC will mean: the transformation of YPF into two or more mixed economy corporations prior to capitalization thereof by strategic investors, the management control of said company by said investor(s), and the transfer of State shares in the company to every Bolivian age 21 and above.

7. The proposed technical assistance (TA) credit will assist the Government to reform the hydrocarbon sector and capitalize the resulting MECs. It is an integral part of a lending program that IDA has designed to support the Government's reform of key sectors which includes a policy-based umbrella, the proposed Capitalization Program Adjustment Operation².

Project Objectives

8. The project objectives are to assist the Government in the analysis, planning, design and execution of: (i) its reform program for the hydrocarbon sector, including the strengthening of the institutions which will be monitoring and regulating the sector ; and (ii) in the capitalization of YPF. The project reflects the findings of a diagnosis carried out in February/March 1993, as well as a number of studies carried out during project preparation.

Project Description

9. The proposed project will include three components: (i) Component "A": Legal and Regulatory Framework (about 6 percent of total project cost) including analytical studies and preliminary activities for the design of the overall legal and regulatory framework for the reform of, and future development in the sector; (ii) Component "B": Capitalization of YPF (about 43 percent of total project cost) including pre-capitalization analytical studies and preliminary activities and preparation for the capitalization transaction of MECs; and (iii) Component "C": Institutional Strengthening (about 51 percent of total project cost) to enable the NSE to carry out the reforms and monitor the sector by: (a) strengthening of DGH to be involved in preparatory activities leading to the establishment, initial staffing and start up operations of an appropriate organization structure (satisfactory to the IDA) as provided by the Hydrocarbons Law which will, **inter-alia**: (1) formulate Exploration and Production (E&P) policies, (2) promote E&P activities and investment, (3) negotiate concessions and other types of contracts with and be counterpart of investors, (4) implement a Data Bank composed of technical information and physical samples related to and provided under, the hydrocarbon activities currently performed by YPF and other contractors; (5) enforce technical and safety standards and norms applicable to the hydrocarbon operations and (6) monitor concessions, operation contracts and ensure compliance of obligations of contractors, including compliance of investors' investment obligations in E&P activities, but not limited to, under the capitalization process and training of Bolivian individuals; (b) designing a unit within the organizational structure referred in (i) above that will manage the data bank referred above and determine its initial staffing; (c) designing the organizational structure and determine its initial staffing and start up needs of a unit that will monitor compliance with environmental regulations, norms and standards applicable to the sector,

². IDA proposed lending program for the Government capitalization program includes: (a) a Capitalization Program Adjustment Credit (CPAC) for an amount of US\$50 million equivalent which covers six sectors: hydrocarbons, electricity, telecommunications, aviation, railroad, and smelter/mining; and (b) five technical assistance projects supporting the adjustment program which are (i) the Hydrocarbons Sector Reform and Capitalization TA Project (US\$11 million); (ii) the Power Reform and Capitalization TA Project (US\$8 million); (iii) the approved and disbursing Regulatory Reform and Capitalization TA Project (US\$14.7 million); (iv) the Judicial and Administrative Reform TA Project (US\$13 million); and (v) the Financial Market Project TA (US\$13 million). CPAC will be disbursed in three tranches, the disbursement of one of this tranche being conditioned on specific actions to be taken with regard to the hydrocarbon sector.

including indigenous population and ecological issues, particularly in remote areas; (d) carrying out a promotion campaign to attract private foreign investment in for exploration and production activities in the sector; (e) designing the organizational structure and determining initial staffing and start up needs for the HCS in SIRESE; (f) providing training to NSE personnel for the staffing of the units described above in item (a) through (b) and (e); (g) providing administrative support to the PEU; and (h) acquiring and utilizing for all of the above office equipment and materials, computers, software, printers, and photo-copying and facsimile machines, and two four-wheel drive vehicles for the working group in charge of environmental matters. A full description of the proposed project, including a breakdown of the estimated cost of each of the three components as well as the status of government's latest policy actions and the project's preparation are shown in the **Technical Annex**. The Project is expected to be completed by June 30, 1998. The closing date is December 31, 1998.

Project Costs and Financing

10. The total cost of the proposed TA is estimated at US\$13.3 million equivalent, including the refinancing of US\$2.0 million for a Project Preparation Facility³ (PPF). The proposed financing for the project includes: (i) US\$10.64 million (including the US\$2.0 million PPF reimbursement) financed under the proposed IDA credit; and (ii) the balance of US\$2.66 million, financed by the Government through budgetary allocations. The Canadian International Development Agency (CIDA) has indicated its interest in co-financing (up to US\$2.4 million equivalent) specific sub-components related to environment, personnel training, and Data Bank Unit design, staffing and start up. In the event CIDA co-financing is materialized, IDA financing would be canceled from the credit by the amount subscribed by CIDA. Furthermore, and not included in the total project cost, a Japanese Grant of Yen 71 million (US\$500,000 equivalent) financed initial identification and preparatory activities in 1992 and early 1993 under the previous government. The proposed credit will finance 100 percent of the foreign exchange component and about 41 percent of local expenditures. This represents about 80 percent of total project costs with the Government financing the balance of local costs and taxes of about 20 percent. **Schedule A** to this Memorandum and **Table 1** of the **Technical Annex** shows the details of project components, costs, and the financing plan.

Project Implementation

11. The NSE in MOED and the National Secretariat of Capitalization (NSC) in MOC will be the Executing Agencies of the credit, each one implementing the component(s) under its jurisdiction. The former will be in charge of the Legal and Regulatory Framework, and the Institutional Strengthening components. The latter will be in charge of the YPFB's Capitalization component. To achieve this, it was agreed that the following units will be established: (i) a Project Executing Unit (PEU) located in NSE, reporting to the National Secretary of Energy; and (ii) a Capitalization Unit (CAPU) located

³. A Project Preparation Facility of US\$1.0 million was approved on July 17, 1992 by the previous Government to support the project whose objectives changed radically after this present administration took over in August 1993. The original PPF was amended to reflect this change. In addition, IDA approved on September 21, 1993 another PPF of US\$1.5 million to support an IDA funded Natural Gas Development Project for US\$35 million which was canceled in January 1995. This PPF will be canceled and replaced by a supplemental PPF of US\$1.0 million to further assist in project's preparation.

in, and assisted, for procurement matters, by the Procurement Unit already established in the NSC, located in YPFB but reporting to the National Secretary of Capitalization. Both executing units will need to maintain close coordination and cooperation to ensure a successful and timely implementation (para. 12). In addition, CAPU will be getting from YPFB administrative and technical support, including office space and communications facilities it needs as defined by a YPFB's Board of Directors Resolution No 57/95 dated May 10, 1995. With regard to environmental matters, provisions are included in the Development Credit Agreement to ensure that cooperation and close coordination will be maintained between the National Secretariat of Natural Resources and Environment (NSONRE), the NSE and the NSC (para. 20). The **Technical Annex** provides more details about project implementation. The **Project Implementation Organization Chart** shown in **Figure 1, Schedule 1 (Key Project Activities and Project Timetable)**, and **Project Performance Indicators** contained in the **Technical Annex** highlights the key aspects of project implementation, while **Schedule C** shows the proposed project supervision plan.

12. Broader coordination among Ministry of Finance (MOF), Ministry of Economic Development (MOED), MOC, National Secretariat of Finance (NSC), NSE, NSONRE, and YPFB will be important for efficient decision making and timely execution. To that end an Advisory Committee (AC) reporting to the President of Bolivia will be established in order to ensure coordination among all parties. This AC will be chaired by the Minister of Capitalization, and will be composed of the Minister of Economic Development, the National Secretary of Energy, the National Secretary of Finance, the National Secretary of Capitalization, the National Secretary of Natural Resources and Environment, and the President of YPFB. This AC will advise and provide guidance to CAPU and NSE on the main issues and policy aspects with regard to the reform of the sector and the capitalization of YPFB and their interrelation, and make recommendations to the President for final decision.

Procurement and Disbursement

13. The **Technical Annex** describes the procurement and disbursement arrangements for the proposed credit. As summarized in **Schedule B**, procurement and disbursement would be according to normal IDA guidelines and 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. In the event of CIDA co-financing, portions of the project to be co-financed would follow the procurement guidelines and procedures of this institution and/or any trust fund agreement this institution has with IDA. Furthermore, to facilitate project execution and disbursement, there will be two separate special accounts, one for each unit of each beneficiary, the PEU and CAPU. These special accounts will be opened with the Central Bank. Retroactive financing for consulting services and related equipment procured under IDA Guidelines after September 30, 1994 (but not more than one year before signing) is proposed up to US\$1.0 million equivalent to about 10 percent of the proposed amount of the credit.

Project Sustainability

14. The proposed project aims to eliminate the role of the state as an investor in the productive activities of the sector, and introduce an institutional strengthening process that will maintain itself well beyond the period of the proposed credit. Policy measures which will ensure sustainability and which are considered in the CPAC include: (i) the passage of the Hydrocarbons Law and corresponding regulations implementing it, including environmental regulations specific to the sector; (ii) an amendment to the General Tax Law which was already approved by the National Congress (NC) and which would introduce a new corporate income tax and excise taxes on gasoline and diesel; (iii) a Sectorial Regulatory System Law (SIRESE) which has already been approved by the NC and will help establish clear rules for all activities which will be regulated by the enacted SIRESE Law, the future Hydrocarbons Law and their respective regulations related to these activities; and (iv) clear YPFB capitalization principles and regulations. The overall Government reform is viewed as an irreversible policy decision. The sustainability of the reform and institutions themselves would depend on the ability of the Government to hire and maintain qualified staff for the DGH, the ENTE, and the Superintendency for Hydrocarbons (HCS) in the SIRESE, the multi-sectorial regulatory commission, and protect the autonomy of these entities through security of tenure. To ensure this, provisions are included in the SIRESE Law to secure financing for the HCS through a special fee to be paid by the private oil companies, requiring supplemental provisions in the Hydrocarbons Law. Further, funds are provided by the project to support this objective through the use of external consultants during the initial implementation and for external and on-the-job training. While there will be no formal cross-conditionality between CPAC and this credit, performance indicators as shown in the **Technical Annex** will be used to monitor progress of Government policy actions which are supported by CPAC.

Lessons Learned from Previous IDA Involvement

15. Since the early 1980s, there have been credits for IDA sector related projects in Bolivia: the Vuelta Grande Natural Gas Recycling Project, and the Reconstruction Import Credit I and the Reconstruction Import Credit II both of which included a hydrocarbons component. Bolivia also has received important technical assistance from the ESMAP Program which financed several strategy studies dealing with the sector and the preparation of YPFB's capitalization. The main lesson learned was the need to supervise projects very closely because of a weak procurement system and deficiencies in project management and coordination.

16. Similar restructuring and privatization projects financed by the Bank in other parts of the world including Latin America provide other important lessons. For example, in Argentina, the Bank provided technical assistance for the privatization of Yacimientos Petroliferos Fiscales (YPF) and Gas del Estado (GdE). The main lessons learned were: (i) the need for a clear and common vision; (ii) a strong commitment to and consensus on the reform program by the Government to the Government Trustee designated to privatize YPF and GdE; (iii) adherence to a firm timetable; (iv) transparency in the process; and (v) competent and dedicated local teams supported by very reputable and qualified international and local firms and individual consultants. In addition, experience learned from a recent mission organized by the Bank to Argentina has shown the need to: (i) take extreme care in the way YPFB is capitalized in order to avoid undesirable results such as the lack of sufficient competition

upstream and downstream; (ii) have a clear up-front definition of the new role of the state as a policy maker and regulator; and (iii) provide sufficient technical support and training for the newly-created institutions. Similar lessons emerged from other projects supported by the Bank in Peru and Ecuador.

17 All of these lessons have been taken into account in designing the proposed project, keeping in mind the constraints which are specific to Bolivia and the specific characteristics of the capitalization scheme. The project concept was jointly developed by IDA and the Bolivian authorities after a careful analysis of the legal and regulatory framework and issues.

Rationale for IDA Involvement

18. The proposed project is consistent with the Bank Group's Country Assistance Strategy discussed by the Board on February 8, 1994, as well as the Government's policy agenda, which aims to phase out State participation in productive activities. This project would provide a unique and catalytic function through its support of reforms of the policy environment and the linkage between these reforms and the institutional-strengthening measures to implement them. Consequently, this project would provide direct assistance for the sector, and would support the establishment of a new legal and regulatory framework to attract private investment and foster competition, capitalize YPFB, and strengthen the role of the State as a policy maker and regulator. IDA involvement in the formulation of the new legal and regulatory framework, and conceptualization of YPFB's capitalization process as well as consultants' selection, and supervision would ensure that the objectives of the Government's adjustment program are met. **Schedule D** shows statements of IDA's credits to Bolivia.

Agreed Actions

19. During negotiations, agreements were reached on: (i) the TOR for PEU and CAPU and the delineation of their respective responsibilities; (ii) the targets that will be used to monitor project activities and overall performance; (iii) the establishment of an Advisory Committee to ensure coordination among the Borrower's National Secretary of Finance, MOC, NSE, NSC, NSONRE and YPFB; and (iv) reporting and auditing requirements for the project. In addition to financial auditing, PEU and CAPU will prepare separate full progress reports and submit them to IDA every six months within the fourth week following the end of each semester. These reports will detail all project and related activities, report on the progress in relation to agreed schedules and project milestones, and identify any problems which may have been encountered and which could adversely affect the overall impact of the project.

Environmental Aspects

20. The project has been classified as environmental category B. Although the TA project has no direct environmental impact, the diagnostic study of YPFB's operations and physical facilities has identified a number of environmental issues which will be investigated further. Two comprehensive environmental audits of all YPFB's physical facilities and activities, as well as related ecological and social issues related to indigenous people will serve as the basis for distributing stock liabilities between the Government and the strategic investors. They will also assist in the development of operational

guidelines and environmental regulations to be enforced by the MOSDE. New strategic investors in MECs as well as all oil and gas companies will be subject to new environmental laws (which have been already enacted), regulations, norms and standards which are under preparation. The Technical Annex and its **Attachment 1** provides more details about these aspects.

Program Objective Category

21. Several existing and forthcoming IDA projects and operations are focused on addressing health and educational issues in Bolivia. While the proposed project does not target poverty alleviation initially, the proposed reform measures for the sector, and capitalization of YPFB should increasingly release financial resources which can then be redirected to providing some essential social and infrastructure investments. In addition, the transfer of assets to all Bolivian adults (in the form of shares managed by a pension fund as part of the capitalization program) would assist in more equitable distribution of wealth.

Project Benefits

22. The economic benefits of the legal, regulatory and structural reform of the sector, as well as the capitalization program are likely to be substantial. Increased Government revenues and foreign exchange earnings are expected from significant inflows of private capital resulting in an increase of the hydrocarbon reserve base, production and exports, as well as efficiency. Moreover, the introduction of a new tax regime for upstream and downstream operations, which will restore market price transparency and stimulate competition will eliminate economic distortions and government's implicit subsidies. The institutional component will strengthen NSE. Finally, the distribution of shares resulting from YPFB's capitalization may help expand and strengthen the pension fund and create a capital market.

Project Risks

23. The main risks associated with the project concern possible delays in project implementation due to weak organization and/or poor coordination. The setting up of an AC and the technical assistance provided under this project should minimize this risk. Another risk is a lack of adequate skilled staff within the working groups in the NSE and CAPU. To address this issue, specialized consultants will be assigned specific tasks while long term consultants will be assigned to the PEU and CAPU to assist, in situ, in the process. A final risk concerns the possible delay in presenting to the National Congress a new Hydrocarbons Law, and its approval of a law. However, taking into account the track record of the various laws already enacted by the National Congress (Capitalization Law, SIRESE Law and Electricity Law) which are all satisfactory to IDA, this is a remote risk to consider. Even so, a public information campaign has been launched, and will be used to inform the public of the Government reform program and distribution of shares scheme. Furthermore, prior review and approval of Terms of Reference will assist the Government to pursue the implementation of the project on the basis of clear agreements with IDA and will limit the risk of financing activities which are not in the direction supported by IDA.

Recommendation

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

James D. Wolfensohn
President

Attachments
Washington D.C.
June 2, 1995

BOLIVIA
HYDROCARBON SECTOR REFORM AND CAPITALIZATION
TECHNICAL ASSISTANCE PROJECT

ESTIMATED TOTAL PROJECT COST
(In 000's US Dollars)

Project Components	Local	Foreign	Total	Foreign as % of Total
A. LEGAL AND REGULATORY FRAMEWORK				
• Regulations Implementing Hydrocarbons Law	120	180	300	60.0
• Model Contracts for concessions and others	40	60	100	60.0
• Environmental Regulations Standards and Norms	40	60	100	60.0
• Natural Gas Distribution Companies Legal Aspects	40	60	100	60.0
SUB TOTAL	240	360	600	60.0
B. CAPITALIZATION OF YPFB				
1. PRE-CAPITALIZATION PHASE	1,692	2,568	4,260	60.0
• Technical and Financial Valuation of YPFB Assets	280	420	700	60.0
• Business Unit Organization and Cost Centers Study	120	180	300	60.0
• Follow-up on Personnel Optimization Pilot Study	80	150	230	60.0
• Debt Issues Study	120	180	300	60.0
• Follow-up on Env. Audit and Mitigation Plan	40	60	100	60.0
• Follow-up on Pilot Inventory Study	160	240	400	60.0
• Administrative Support to CAPU	60	90	150	60.0
• Legal Aspects of Pre-capitalization (title and bid doc.)	400	600	1000	60.0
• Establishment of Data Rooms and Operation	80	120	200	60.0
• Public Information Campaign	320	480	800	60.0
• Office equipment and furniture, computers hardware and software for CAPU	32	48	80	60.0
2. CAPITALIZATION IMPLEMENTATION PHASE	80	120	200	60.0
• Preparation of Marketing Strategy and Road Shows	80	120	200	60.0
SUB-TOTAL	1,772	2,668	4,460	60.0

SCHEDULE A
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BOLIVIA
HYDROCARBON SECTOR REFORM AND CAPITALIZATION
TECHNICAL ASSISTANCE PROJECT
ESTIMATED TOTAL PROJECT COST
(In 000's US Dollars)

Project Components	Local	Foreign	Total	Foreign as % of Total
C. INSTITUTIONAL STRENGTHENING				
• ENTE/DGH Org. Study, Set-up & Staffing, & Start Up	600	900	1,500	60.0
• Data Bank Unit Org. Study, Set Up & Staffing, & Start Up	400	600	1,000	60.0
• Env. Unit Org. Study, Set Up & Staffing & Start Up	200	300	500	60.0
• HCS at SIRESE Org. Study & Set up	360	490	850	60.0
• Exploration and Production Promotion Campaign	80	120	200	60.0
• Training for NSE Personnel	240	360	600	60.0
• Office Equipment and Furniture, Computers Hardware and Software for NSE	168	252	420	60.0
• Administrative Support for PEU	100	150	250	60.0
SUB-TOTAL	2,148	3,172	5,320	60.0
Total Base Cost	4,160	6,220	10,380	60.0
Price Contingency	360	560	920	60.0
SUB-TOTAL	4,520	6,780	11,300	60.0
PPF Refinancing	----	2,000	2,000	100.0
TOTAL	4,520	8,780	13,300	66.0

Projected Financing Plan
(In 000's US Dollars)

	Local	Foreign	Total	% of Total
Government of Bolivia	2,660	--	2,660	20.0
IDA	1,860	8,760	10,640	80.0
Total	4,520	8,760	13,300	100.0

BOLIVIA
HYDROCARBON SECTOR REFORM AND CAPITALIZATION
TECHNICAL ASSISTANCE PROJECT

PROCUREMENT AND DISBURSEMENT ARRANGEMENTS
(In 000's US Dollars)

Project Component	Other^{a/}	N.I.F^{b/}	Total
A. Goods	315 (315)	185 ----	500 (315)
B. Consulting Services	10,325	2,475	12,800
1. Technical Assistance	10,020 (10,020)	1,780 -----	11,800 (10,020)
2. Administrative Support and Training	305 (305)	695 -----	1,000 (305)
TOTAL	(10,640)	2,660	13,300

Notes: figures in parentheses indicate amounts financed by IDA

- a/ International Shopping using IDA guidelines will be used for goods such as office equipment (copying and fax machines), computer hardware and software, and two 4 wheel drive vehicles for an estimated amount of US\$315,000 packaged in contracts of US\$25,000 or more but not exceeding US\$100,000. "Other" IDA procurement include procurement of consultants according to IDA guidelines. For goods, prior review ex-post for all contracts valued at US\$25,000 or more and ex-post during supervision and on a random basis for all contracts valued less than US\$25,000. For consultancy contracts with firms valued at less than US\$60,000 and with individual consultants valued at US\$30,000. IDA prior review will cover only TORs with requirement to use model letter of invitation.
- b/ "N.I.F" means Non IDA financed procurement for: (i) locally procurement of office equipment and materials under local procedures; and (ii) locally-financed procurement of consultants under local procedures; and for the payment of local taxes.

SCHEDULE B
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Category		Amount of Credit Allocated (000's US Dollars)	Percentage of Expenditures to be Financed
1.	<u>Goods</u>	315	100% of Foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% for other items procured locally
	PEU	260	
	CAPU	55	
2.	<u>Consultancy Services</u> Including Technical Assistance, Training, and Administrative Support	7,765 PEU 4,195 CAPU 3,570	100% of expenditures net of taxes
3.	Refinancing of the PPF	2,000	
4.	Un-allocated	560	
Total		10,640	

Estimated IDA Disbursements
(In 000's US Dollars)

IDA Fiscal Year	1995	1996	1997	1998
Annual	3,000	6,000	840	800
Cumulative	3,000	9,000	9,840	10,640

BOLIVIA
HYDROCARBON SECTOR REFORM AND CAPITALIZATION
TECHNICAL ASSISTANCE PROJECT

TIMETABLE OF PROJECT PROCESSING EVENTS

(a)	Time taken to prepare the project:	21 months
(b)	Prepared by	Government of Bolivia with assistance from IDA staff and Consultants
(c)	First IDA mission:	March 1992
(d)	Appraisal mission:	February/March 1994
(e)	Negotiations:	May 1995
(f)	Scheduled Board Date:	July 1995
(g)	Planned Effectiveness:	October 1995
(h)	List of Relevant Documents	PCR No. 12515: Vuelta Grande Gas Recycling

SCHEDULE C

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**BOLIVIA
HYDROCARBON SECTOR REFORM AND CAPITALIZATION
TECHNICAL ASSISTANCE PROJECT**

BANK STAFF INPUTS FOR PROJECT SUPERVISION to 1996

Approximate Date	Activity	Anticipated Skill Requirements	Input in Staff weeks
10/95	Supervision Mission Review staffing arrangements and office set up Review consulting TOR Review training TOR Review reporting arrangements Review procurement procedures Review pre-capitalization program Review legal and regulatory program Review Org. studies of ENTE, Env. Unit & Data bank	Petroleum Engineer Restructuring Expert Environmental Specialist Legal/Regulatory Expert	2 2 2 2
02/96	Supervision Mission Review project implementation Review Pre-Capitalization Program Review procurement progress Review Capitalization program Review Setting up of Regulatory and other Agencies Review program for Bidding and Legal Documentation Review Program for Price Deregulation	Petroleum Engineer Restructuring Expert Environmental Specialist Legal/Regulatory Expert Natural Gas Distribution Expert	2 2 2 2 2
05/96-12/96	Two Supervision Missions	Restructuring Expert Environmental Specialist	6 2
03/97	Supervision Mission Review project implementation in terms of project objectives Review program impacts Review consulting and training Review capitalization program Review Promulgation laws, regulations, norms and standards Reviews of fiscal impact of program Conduct independent evaluation of reform Review Environmental Mitigation Plan	Petroleum Engineer Restructuring Expert Environmental Specialist	2 4 2

SCHEDULE D

A. STATEMENT OF BANK LOANS & IDA CREDITS IN BOLIVIA (as of March 31, 1995)

Ln/Cr Number	Fiscal Year	Borrower	Purpose	Amount in US\$ million (less cancellations)		Undis- bursed
				Bank	IDA	
16 Loans & 28 Credit(s) closed (including 5 reflows)				274.78	401.88	
18090	1988	Bolivia	Public Financial Mgt I		11.50	0.00
18180	1988	Bolivia	Power Sector Rehab.		6.80	0.30
18420	1988	Bolivia	Urban		15.00	1.28
19770	1989	Bolivia	Econ Mgt. Strength Opn		9.70	0.26
20120	1989	Bolivia	Export Corridors		37.00	9.63
20130	1989	Bolivia	Mining Sector		35.00	24.75
20920	1990	Bolivia	Integrated Health Devt.		20.00	10.89
21190	1990	Bolivia	Eastern Lowlands		35.00	18.28
21270	1990	Bolivia	Social Investment Fund		20.00	1.38
21340	1990	Bolivia	Private Enterprise Devt		16.10	14.15
21870	1991	Bolivia	Water Supply & Sewerage		35.00	22.11
22160	1991	Bolivia	Technology Dev't		21.00	10.13
22790	1991	Bolivia	Public Financial Mgt II		11.30	6.97
22980	1992	Bolivia	Structural Adjustment Cr		40.00	8.29
23220	1992	Bolivia	Agro Export Dev. Prog.		22.50	20.18
23950	1992	Bolivia	Road Maintenance		80.00	78.04
24430	1993	Bolivia	Environ. TA Project		4.80	2.28
25310	1993	Bolivia	Integrated Child Development		50.70	51.71
25320	1993	Bolivia	Social Investment Fund II		40.00	28.59
25650	1994	Bolivia	Municipal Development		42.00	41.49
26470	1995	Bolivia	Regulatory Ref. & Cap.		14.70	14.67 *
26500	1995	Bolivia	Education Reform		40.00	43.00 *
22983	1995	Bolivia	Structural Adjustment Cr.		9.37	10.06 *
22984	1995	Bolivia	Structural Adjustment Cr.		8.60	9.11 *
TOTAL				274.78	1,027.95	
Of which repaid				207.12	18.28	
Total held by Bank & IDA				67.66	1,009.67	
Amount sold				0.05		
Of which repaid				0.05		
Total Undisbursed						427.55

* Undisbursed balance higher than committed due to exchange rate fluctuation.

B. STATEMENT OF IFC INVESTMENTS (as of March 31, 1995)

	Loan	Equity	Total
Total Gross Commitments	113.24	14.01	127.55
Less: cancellations, terminations, exchange adjustments, repayments, write-offs and sales	37.56	0.89	38.45
Total Commitments now held by IFC	75.27	13.12	88.39
Total Undisbursed IFC	16.59	4.06	20.65

IMAGING

Report No: P- 6228 B0
Type: MOP