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| 1. Project Data: | | Date Posted : 05/30/2003 | |
| PROJ ID: P057030 | | Appraisal | Actual |
| Project Name: Reg Reform Adj Credi | Project Costs (US\$M) | 40.0 | 41.78 |
| Country: Bolivia | Loan/Credit (US\$M) | 40.0 | 41.78 |
| Sector(s): Board: PSD - General public administration sector (60%), General energy sector (16%), Telecommunications (8%), General water sanitation and flood protection sec (8%), General transportation sector (8%) | Cofinancing (US\$M) | na | na |
| L/C Number: C3143 | | | |
| | Board Approval (FY) | | 99 |
| Partners involved : | Closing Date | 12/31/2000 | 07/31/2002 |
| Prepared by : | Reviewed by : | Group Manager : | Group: |
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2. Project Objectives and Components

a. Objectives

The project's overall objective was to encourage private sector -led growth through domestic and foreign private investment. The project's specific development objectives were to : (i) maintain an independent regulatory system which facilitates economic efficiency in the financial and key infrastructure sectors, and thus promotes competition and investment; (ii) strengthen the stability and the efficiency of the financial sector to support economic growth; (iii) improve the coverage, quality, and productivity of key infrastructure services with appropriate tariff structures to encourage investment in these sectors and thus contribute to increased productivity .

The program was to have been carried out within an acceptable macroeconomic framework . Macroeconomic targets were to raise economic growth from an average of 4 percent 1990-98 to 5.5 percent by 2000, while achieving a significant reduction in poverty as measured by specific mortality, child malnutrition, and primary education indicators; to reduce inflation from just under 7 percent in 1998 to 5.5 percent by 2000; and to maintain international reserves at an equivalent of 6.5 months of imports.

b. Components

The credit focused on strengthening the institutional framework that regulated basic infrastructure and financial sector services. Most of the components dealt with the enactment of laws and regulations to enhance the ability of regulators to comply with their responsibilities, while providing safeguards and minimum quality standards for consumers. The credit had the following components : (i) measures to maintain the independence and effectiveness of the regulatory system (enactment of an Administrative Procedures Law, submission of a draft Competition Law, establishment of a consultative group to coordinate the development of norms for those sectors governed by the System for Sectoral Regulation, adoption of administrative resolutions by the regulatory agencies, enactment of a Basic Sanitation Law and regulations, appointment of a head of the Superintendency of Basic Sanitation); (ii) measures to increase private participation in infrastructure services (entrance into six concession agreements with eligible water and sanitation providers, measures to enable the entry of two eligible private providers of personal communications systems into the telecommunications sector, divestiture of residual assets of the national hydrocarbons company (YPFB)); and (iii) measures to strengthen the financial sector (enactment of a Financial Sector Strengthening Law and a Non Bank Financial Intermediary Law, implementation of new financial regulations, and measures to ensure that a deposit guarantee fund was operational). A parallel technical assistance operation (the Regulatory Reform and Privatization Technical Assistance Credit) helped to elaborate and implement the reform program.

c. Comments on Project Cost, Financing and Dates

The loan of SDR 30.5 million (US\$40 million equivalent) was disbursed in two equal tranches. The closing date was extended from December 31, 2000 to June 27, 2002 to allow sufficient time for passage and implementation of key

legislation. However, only 11 of the 14 conditions for second tranche release were met, and the Board granted a waiver of the remaining conditions to allow for second tranche release .

3. Achievement of Relevant Objectives:

The project's objectives were highly relevant to the Government's development strategy, which aimed at deepening financial sector reforms, strengthening the regulatory functions of the state, and promoting competition . The credit focused on strengthening the institutional framework that regulated basic infrastructure and financial sector services . Several important pieces of legislation were approved that strengthened the independence and credibility of the regulatory system. Three waivers were required to meet second tranche conditions . Two of these waivers did not materially alter the successful outcome of the project . The third, the Basic Sanitation Law, is discussed in Section 5 below.

4. Significant Outcomes/Impacts:

By increasing the effectiveness of the regulatory system, the project helped to maintain the viability of infrastructure services during the downturn in the economy in the late 1990s. The improvements to the financial regulatory system strengthened the capacity of regulators to deal with the deterioration in the economic environment . Specific outcomes/impacts included:

- strengthened independence and credibility of the regulatory system through passage of the Administrative Procedures Law.
- more appropriate mechanisms to deal with domestic and external shocks to the financial system, and better disclosure of asset quality leading to greater stability of the financial system .
- consolidation of all depository institutions into one regulatory framework, assuring a level playing field for all intermediaries.
- strengthening of the agencies regulating infrastructure services, formalizing the relationship between the regulator and the service providers .
- attraction of private investment in water (six concessions contracts signed), electricity (four concessions contracts signed), and telecom (entry of two new personal communications providers); privatization of most of YPF's residual assets.

5. Significant Shortcomings (including non-compliance with safeguard policies):

In reaction to the water riots in Cochabamba in April 2000, the Government amended the Basic Sanitation Law . This compromised the achievement of the project's objectives in infrastructure . The passage of other important pieces of legislation was delayed as the Government encountered opposition in Congress . These delays in meeting conditionality led to a downgrading of project implementation to Unsatisfactory in July 2000. Once the political deadlock was overcome at the end of 2001, several important pieces of legislation were approved, which put the project back on satisfactory status . In the end, however, 3 waivers were requested out of the 14 conditions for second tranche release .

The Government's Letter of Development Policy had stated the objective of raising economic growth to 5.5 percent annually by the year 2000. A number of external shocks in the late 1990s resulted in a deterioration of the macroeconomic situation. Real GDP growth was 2.4 percent in 2000 and 1.2 percent in 2001. The ICR was unclear about the achievement of other macroeconomic targets .

Other issues raised in the ICR were the following :

- A change in the telecommunications law allowed telecommunications companies to reinstate charges previously opposed by the System for Sectoral Regulation . This example suggests that the effectiveness of regulations supported by the project may be in doubt .
- The banking superintendency hesitated to act in the case of technically insolvent banks due to concerns about possible political implications .
- Successful implementation of financial regulations had the effect of changing indicators of portfolio quality, so that portfolio quality appeared to have deteriorated .
- The impact of pension reform on capital markets has not yet materialized due to the fiscal problems associated with the mounting government deficit coming from pension liabilities .

| 6. Ratings : | ICR | OED Review | Reason for Disagreement /Comments |
|-----------------------------|--------------|--------------|-----------------------------------|
| Outcome : | Satisfactory | Satisfactory | |
| Institutional Dev .: | Substantial | Substantial | |
| Sustainability : | Likely | Likely | |
| Bank Performance : | Satisfactory | Satisfactory | |
| Borrower Perf .: | Satisfactory | Satisfactory | |

Quality of ICR :

Satisfactory

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- The credibility of the regulatory system requires separation of the regulatory process from political interference . This is difficult to achieve, even when the right legal and institutional reforms are adopted . Projects with significant legislative components require careful assessment of the the political landscape during project preparation.
- Flexibility may be required when designing phase-in periods and limits for guarantees in Deposit Guarantee Funds.

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

The ICR contains a good discussion of the project's relevance and the achievement of policy and institutional outcomes. However, it was difficult to follow, mainly due to problems in presentation . It would have been clearer if the ICR had summarized the achievement of outputs and outcomes in a matrix, using the policy matrix contained in the original project documents. Also, the ICR should have been more self-contained so that reference to project documents was unnecessary .