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PROJECT PERFORMANCE ASSESSMENT REPORT

BOLIVIA

PRIVATE ENTERPRISE DEVELOPMENT PROJECT
(Credit 2134 – BO)

CAPITALIZATION PROGRAM ADJUSTMENT CREDIT
(Credit 2761 – BO)

FINANCIAL MARKETS & PENSION REFORM TA
(Credit 2789 – BO)

PUBLIC FINANCIAL MANAGEMENT OPERATION II
(Credit 2279 – BO)

February 2, 2006

Country Evaluation and Regional Relations
Independent Evaluation Group

Currency Equivalents

(December 31, 2004)

Currency Unit: Boliviano
1 US$ = 8.0 Bolivianos

Abbreviations and Acronyms

AFP	Private Pension Fund Administrator
BCB	Central Bank of Bolivia
BONOSOL	Solidarity Bond, the instrument used to distribute the dividends from the capitalized companies to qualified retirees.
CAF	Andean Development Corporation
CAS	Country Assistance Strategy
CNV	National Securities Commission
CGR	Comptroller General of the Republic
CONFIP	Prudential Financial Norms Consultative Group
CPAC	Capitalization Program Adjustment Credit
DGF	Deposit Guarantee Fund
ESW	Economic and Sector Work
FCC	Collective Capitalization Fund
FMPRTA	Financial Markets and Pension Reform TA
FSF	Financial System Strengthening (Law)
GDP	Gross Domestic Product
ICR	Implementation Completion Report
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IT	Information Technology
LAB	Lloyd Aereo Boliviano: national airline
MOP	Memorandum of the President
NAFIBO	National Finance Company of Bolivia (Development Finance Bank)
NEP	New Economic Policies (launched in August 1986)
OED	Operations Evaluation Department*
PCP	Popular Credit and Property (Law)
PCS	Personal Communications System
PEDP	Private Enterprise Development Project
PFMOII	Public Financial Management Operation II
PPAR	Project Performance Assessment Report
PSA	Popular Shares Account
SAFCO	Financial Administration and Control system
SAT	Technical Assistance Service
SBEF	Superintendency of Banks and Financial Entities
SIGMA	Financial Information System
SIIF	Integrated Financial Management System
SIRESE	System for Sectoral Regulation
TA	Technical Assistance
TGN	National Treasury Department within the Ministry of Finance
YPFB	National Hydrocarbons Company

Fiscal Year

Government: January 1 – December 31

* OED has changed its official name to Independent Evaluation Group (IEG). The new designation "IEG" will be inserted in all IEG's publications, review forms, databases, and websites.

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IEG Mission: Enhancing development effectiveness through excellence and independence in evaluation.

About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses about 25 percent of the Bank's lending operations. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons. The projects, topics, and analytical approaches selected for assessment support larger evaluation studies.

A Project Performance Assessment Report (PPAR) is based on a review of the Implementation Completion Report (a self-evaluation by the responsible Bank department) and fieldwork conducted by IEG. To prepare PPARs, IEG staff examines project files and other documents, interview operational staff, and in most cases visit the borrowing country for onsite discussions with project staff and beneficiaries. The PPAR thereby seeks to validate and augment the information provided in the ICR, as well as examine issues of special interest to broader IEG studies.

Each PPAR is subject to a peer review process and IEG management approval. Once cleared internally, the PPAR is reviewed by the responsible Bank department and amended as necessary. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System

The time-tested evaluation methods used by IEG are suited to the broad range of the World Bank's work. The methods offer both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (more information is available on the IEG website: http://worldbank.org/ieg/eta-mainpage.html).

Relevance of Objectives: The extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, and Operational Policies). *Possible ratings:* High, Substantial, Modest, Negligible.

Efficacy: The extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance. *Possible ratings:* High, Substantial, Modest, Negligible.

Efficiency: The extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. *Possible ratings:* High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

Sustainability: The resilience to risk of net benefits flows over time. *Possible ratings:* Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

Institutional Development Impact: The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. *Possible ratings:* High, Substantial, Modest, Negligible.

Outcome: The extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently. *Possible ratings:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). *Possible ratings:* Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. Possible ratings: Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

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Principal Ratings

Private Enterprise Development Project (PEDP) (Cr. 2134)

	ICR	ICR Review*	PPAR
Outcome	Satisfactory	Marginally Unsatisfactory	Moderately Unsatisfactory
Institutional Development Impact	Substantial	Modest	Modest
Sustainability	Likely	Likely	Unlikely
Bank Performance	Satisfactory	Satisfactory	Unsatisfactory
Borrower Performance	Deficient	Unsatisfactory	Unsatisfactory

Capitalization Program Adjustment Credit (CPAC) (Cr. 3761)

	ICR	ICR Review*	PPAR
Outcome	Satisfactory	Highly Satisfactory	Moderately Satisfactory
Institutional Development Impact	Partial	Substantial	Substantial
Sustainability	Likely	Likely	Non-evaluable
Bank Performance	Highly Satisfactory	Highly Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Highly Satisfactory	Satisfactory

Financial Markets and Pension Reform TA (FMPRTA) (Cr. 2789)

	ICR	ICR Review*	PPAR
Outcome	Satisfactory	Satisfactory	Moderately Unsatisfactory
Institutional Development Impact	Substantial	Substantial	Substantial
Sustainability	Likely	Likely	Unlikely
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Unsatisfactory

Public Financial Management Operation II (PFMOII) (Cr. 2279)

	ICR	ICR Review*	PPAR
Outcome	Satisfactory	Satisfactory	Moderately Unsatisfactory
Institutional Development Impact	Partial	Modest	Modest
Sustainability	Uncertain	Uncertain	Likely
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible operational division of the Bank. The ICR Review is an intermediate Independent Evaluation Group (IEG) product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Project	Staff	Appraisal	Completion
Private Enterprise Development Project (PEDP)	*Task Manager*	*Constance Bernard*	*Jyoti Shukla*
	Division Chief	*John. M. Page*	*Danny Leipziger*
	Country Director	*Ping-Cheung Loh*	*Isabel Guerro*
Capitalization Program Adjustment Credit (CPAC)	*Task Manager*	*H. von Gersdorff*	*H. von Gersdorff*
	Division Chief	*Krishna Challa*	*Danny Leipziger*
	Country Director	*Yoshiaki Abe*	*Isabel Guerrero*
Financial Markets and Pension Reform TA (FMPRTA)	*Task Manager*	*H. von Gersdorff*	*H. von Gersdorff*
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	Country Director	*Yoshiaki Abe*	*Isabel Guerrero*
Public Financial Management Operation II (PFMOII)	*Task Manager*	*Alain Tobelem*	*John Pollner*
	Division Chief	*Shahid Chaudhry*	*Danny Leipziger*
	Country Director	*Ping-Cheung Loh*	*Isabel Guerrero*

Preface

This is the Project Performance Assessment Report (PPAR) on four lending operations to Bolivia from 1990 to 1998, to assist the country in developing the private sector and in improving public sector management of resources.

The Private Enterprise Development Project (PEDP) (Credit 2134–BO), in the amount of US$16.1 million, was approved on May 17, 1990, became effective on June 14, 1991, and was closed on June 30, 1998, three years after the original closing date. The credit was comprised of two components, a line of credit to finance industrial enterprises, and a technical assistance (TA) component. Actual disbursements were US$18.9 million. The loan agreement was amended five times in response to changed objectives and implementing agencies.

The Capitalization Program Adjustment Credit (CPAC) (Credit 2761–BO), in the amount of US$50.0 million, was approved on July 6, 1995, became effective on December 1, 1995, and was closed on September 30, 1998, or about one year after the original date. The credit was disbursed in four tranches, the first upon effectiveness, and the other three were floating tranches based on completion of specified conditions. The loan agreement was amended four times, mostly to increase the loan amounts, resulting in actual disbursements of US$65.3 million. Co-financing of US$82 million was provided by Inter-American Development Bank, for total financing of US$147.3 million.

The Financial Markets and Pension Reform TA project (FMPRTA) (Credit 2789–BO), in the amount of US$8.4 million, was approved on November 30, 1995, became effective on January 14, 1997, and was closed on December 31, 1998, about one year after the original closing date. The credit was disbursed during the period of effectiveness for a total of US$7.6 million.

The Public Financial Management Operation II (PFMO II) (Credit 2279–BO), in the amount of US$11.3 million, was approved on June 26, 1991, became effective on December 16, 1991, and was closed on December 31, 1997, also one year after the initial date. Disbursements were made during the period of effectiveness for a total of US$10.8 million.

This PPAR is based on a review of relevant Bank and Borrower documents and on interviews with Bank and Borrower staff. A mission visited Bolivia in November 2004 to discuss performance with officials who implemented the projects, private and public sector stakeholders, and members of the Bank resident mission. Their cooperation and assistance in preparing this report is gratefully acknowledged.

Comments from the Bank's Regional Management have been incorporated in the report.

A draft report was sent to the Government of Bolivia for comment, and their comments are attached as Annex H. In its comments, the Government states that it disagrees with IEG's rating of Borrower Performance as "Unsatisfactory", noting that the operations so rated were all fully disbursed and that this could not have happened had Borrower Performance been unsatisfactory. The Government further notes that although Government priorities have changed, it expects the achievements under the operations evaluated here to be sustained.

A copy of the draft report was also sent to Inter-American Development Bank that co-financed the Capitalization Program Adjustment Credit, and they had no comments.

This report was prepared by Mr. Manuel Lasaga (Consultant), under the supervision of Mr. Robert J. Anderson (Task Manager). Mr. Fareed M. A. Hassan peer reviewed the report. Mr. Adrian Kats provided research assistance and Ms. Roziah Baba provided administrative support.

Summary

1. The four Credits in this evaluation supported the government's private and public sector strategies. Following the successful experience with stabilization during the latter 1980s, the country focused on reducing the size of the public sector while promoting private sector-led growth. With the introduction of Capitalization in 1993, Bank support of the private sector shifted to the areas of regulatory reform and strengthening of the financial sector. The government's medium-term goal for public sector reform was to instill a new culture of fiscal responsibility aimed at increasing efficiency in the operations of the non-financial public sector through improvements in management and strengthening of the budget process.

Private Enterprise Development Project (PEDP)

2. The objective of the PEDP (1990) was to strengthen the private industrial sector by: broadening the customer base of private enterprises and enhancing their access to financing from the banking system; improving managerial, accounting and marketing skills among manufacturers; and promoting entrepreneurial development. The outcome rating of the PEDP is maintained at *moderately unsatisfactory* because the project did not adequately account for the obstacles to private sector development, the rationale for credit induced growth was not clearly justified and the technical assistance (TA) component was not efficient in channeling support to where it was most needed by industrial enterprises. The amount of support finally given was marginal in relation to the size of the industrial sector. Institutional development impact was considered *modest* since the project did not adequately address the institutional weaknesses in the development of private sector activity. Sustainability of project outcomes is considered *unlikely* in view of its limited development contributions and the high degree of uncertainty in the short and medium-term. Bank performance is downgraded to *unsatisfactory* due to insufficient analysis of the limiting factors in the development of industrial enterprises such as inadequate governance structures as well as the lack of justification for the use of directed credit for industrial enterprise development. The Technical Assistance Service (SAT) did not receive sufficient institutional support or guidance from the Bank. Borrower performance is *unsatisfactory* due to the long delays in project execution and uneven commitment by the implementing agencies to project activities.

Capitalization Program Adjustment Credit (CPAC)

3. The aim of the CPAC was to assist the government to establish an appropriate legal and regulatory framework for the energy and physical infrastructure sectors – i.e., the System for Sectoral Regulation (SIRESE) – as well as for the non-banking financial system (pensions, insurance, and securities) in order to attract private investment and spur growth in an efficient manner; and to divest and capitalize key, large public enterprises. The outcome rating of the CPAC is downgraded to *moderately satisfactory* as result of the recent shift in government views towards private sector development, particularly the

backtracking on the hydrocarbons sector policies with the recently approved Hydrocarbons Law which could undermine the development of those resources, as well as the increasing isolation of SIRESE and greater incidence of political interference. Institutional Development is considered *substantial*. The successful capitalization of the large public sector enterprises resulted in more effective private sector management of these entities and the establishment of a comprehensive sectoral regulatory framework which contributed to more efficient and competitive markets particularly in telecommunications and electric power.

4. Sustainability of the achievements of the CPAC is considered *non-evaluable*.[1] In view of recent political and social developments, risk of further reversal of the capitalization reforms is high. However, on the basis that the political decision process that could resolve pending issues is ongoing there is a great deal of uncertainty concerning outcomes. Bank performance is downgraded to *satisfactory*. While the Bank endorsed the then new Government's Capitalization strategy and provided valuable policy advice particularly in relation to the regulatory framework, greater attention could have been given to political as well as popular opposition and to have focused the communications campaign on the advantages or the 'why' of capitalization, before the program was implemented. Borrower performance is rated *satisfactory*. There was a strong commitment to Capitalization of state enterprises, particularly since this initiative had been framed by the government. On the other hand, greater attention by the government to popular and political opposition to capitalization should have been considered in devising a strategy that would have garnered wider support for these reforms.

Financial Markets and Pension Reform TA Project (FMPRTA)

5. The FMPRTA objectives were to strengthen the institutional capacity to operate and regulate pension funds and securities markets; and to regulate and supervise banking and financial activities in Bolivia. The outcome rating of the FMPRTA is downgraded to *moderately unsatisfactory* based on a rating of modest for relevance and modest for efficacy, particularly in view of the high fiscal cost associated with the design of the public sector pension reform. Continued weakness in the banking system also suggests that re-capitalization of the banks could have been initiated earlier. Institutional Development is deemed *substantial*. This project resulted in significant improvements in the institutional framework of the regulatory agencies particularly the Pensions, Securities and Insurance Superintendency. The reinforcement of banking supervision practices and the introduction of new prudential norms contributed to the institutional advancement of the Superintendency of Banking and Financial Entities (SBEF). Once again, a high degree of uncertainty in the short to medium-term particularly in terms of the pension system reforms leads to a sustainability rating of the FMPRTA of *unlikely*. Bank performance is rated *satisfactory* particularly for its supportive role in strengthening the regulatory environment for the financial system. Borrower performance is downgraded to *unsatisfactory* due to the mismanagement of the pension reform that was a significant setback to the reforms of the financial sector.

[1] CPAC was co-financed by the Inter-American Development Bank.

Public Financial Management Operation II (PFMO II)

6. The objective of the PFMO II was to improve the efficiency, the effectiveness and the transparency of the Government's resource management systems. The outcome rating of the project is downgraded to *moderately unsatisfactory* due to the limited impact of the financial management system, which has encountered substantial delays in rolling out the system to the whole public sector. Lack of government commitment to budget process reform has limited the gains from a financial management system. High degree of staff turnover in the public sector has impeded a decentralized approach to budget management. Institutional development impact is considered *modest* due to resistance to adopting a system based on accountability rather than discretion in managing public sector resources. Sustainability is rated as *likely* although a high degree of political uncertainty, the limited acceptance of the changes introduced by the Law of Financial Administration and Control System outside the central administration, and the chronic turnover of government personnel remain as risk factors to the project's limited outcomes. Bank performance is considered *satisfactory*. While overly complex design of the project and weak supervision during the initial period of implementation diminished the project's effectiveness, a new task manager was brought in after the mid-term review restructured project implementation to follow the objectives more closely. Borrower performance is downgraded to *unsatisfactory* due to the lack of commitment by the highest level of government to the goals of the project.[2]

Lessons

7. The following are lessons of general application:

- The political and social environments are fundamental factors behind the outcome of reforms. Even the best designs can fall prey to the political process. In the case of Capitalization, opposition to reform was underestimated. The design of pension reforms could have analyzed the risk factors more carefully and have incorporated a more intensive Bank support during the critical transition phase. The PFMOII was over-dimensioned and did not take into account the ingrained culture of discretionary spending that would resist any attempts to instill accountability in the budget process.

- When institutional weaknesses are prevalent, the Bank needs to limit the scope of its operations, and be less ambitious in terms of project objectives. In the case of pension reforms perhaps a phased approach with greater attention to the transitional arrangements might have been more effective. The Implementation Completion Report (ICR) for the Financial Markets and Pension Reforms underscored that "Bolivia's pension reform went far beyond previous reform experiences and is being widely observed by other reforming countries." Sometimes achieving this distinction can backfire in terms of lack of institutional capacity to implement the reforms.

[2] The Government does not agree with IEG's ratings in Borrower Performance and Sustainability of these operations. See Annex H.

- Communicating to stakeholders and educating them about reforms can be just as important as the passage of laws. Greater efforts could have been made in communicating the importance of reforms to all political groups as well as to the beneficiaries early in the process. SIRESE could have given greater priority to public relations particularly in educating consumers. Greater outreach to public service employees on the benefits of the new financial management system might have been an effective motivational factor. However, sometimes the benefits are evident as in the case of the telecommunications sector where cell phones became an affordable commodity to Bolivians at all economic levels.

- Risk assessments of projects need to identify specific loan/project components subject to risk and provide contingent plans to guard against adverse impact. Financial sector operations involving new regulatory standards need to be accompanied by contingency plans in case the reforms result in systemic weakening, and in the design of the program attention needs to be paid to the financial and technical resources available to address those contingencies.

Vinod Thomas
Director-General
Independent Evaluation Group

1. Introduction and Background

1.1 The four operations covered in this assessment supported adjustment efforts of Bolivia through the 1990s. When the Bank had resumed lending to Bolivia in 1985, following a six-year hiatus, the main goal then had been to support a dramatic government stabilization program aimed at eliminating hyper-inflation. The projects in this evaluation were implemented during the subsequent phase of structural reforms starting in the late 1980s when the government sought to address the challenges to promoting sustainable growth led by the private sector.

1.2 The economic policy environment for private sector development in Bolivia had first focused on macroeconomic stabilization and consolidation of fiscal and monetary policy reforms, during 1985 to early 1990s; and then shifted to structural reforms to encourage private sector development. Following the successful experience with stabilization during the latter 1980s, the country focused on reducing the size of the public sector while promoting private sector-led growth. The Bank's assistance strategy in 1989 had focused on the goals of maintaining the government's macroeconomic stabilization objectives, on boosting the level and efficiency of investment, both public and private, and on attacking poverty by expanding employment and income earning opportunities and improving the delivery of social services.[3] With the introduction of the Capitalization program in 1993, Bank support of the private sector shifted to the areas of regulatory reform and strengthening of the financial sector.[4]

Macro-stabilization phase

1.3 The macroeconomic stabilization phase was launched in August 1985, following a period of hyperinflation. The government adopted a so-called New Economic Policy (NEP) comprised of the following elements: (i) freeing of virtually all prices; (ii) restoring of fiscal discipline, supported by an overhaul of the tax system, a reorganization of public sector management and the restructuring of public enterprises; (iii) strengthening of the seriously weakened financial system; and (iv) re-establishing relations with public and private creditors.

1.4 The Bank's premise during the initial phase was that economic growth would follow successful macroeconomic adjustment. Noting the importance of outward led growth, the Bank's strategy also focused on the rehabilitation of Bolivia's main public and private export sectors. At the time of the country assistance strategy (CAS) in 1989, mineral exports represented about 47 percent of total exports and oil about 25 percent. One of the more successful Bank initiatives to diversify the export base was the expansion of agricultural production: Soya, wheat and forest resources.

1.5 By the early 1990s, despite the success in stabilizing the economy, Bolivia was still highly dependent on concessionary financing. On the other hand, economic growth averaged 3.5 percent per annum during 1986-1993, which compared favorably to an average of 2.6 percent for the Latin America region. Instead of a growth-inducing effect, macroeconomic indicators

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[3] Bolivia: Country Strategy Paper, June 23, 1989.

[4] Bolivia: Policy Framework Paper, 1992-1995, SecM92-1144, August 1992.

showed a mixed picture regarding the enabling environment for healthy expansion of the private sector.

1.6 One of the challenges to promoting private sector led growth was the entrenched highly dualistic structure of the productive sector in Bolivia – dominated by a few large enterprises, mainly in the public sector, with the rest of the private sector comprising a large number of medium, small and micro enterprises. This environment was not conducive to the pro-growth response that had been expected to occur after successful macroeconomic stabilization.

Structural reforms

1.7 The slower than expected response of the economy to the successful stabilization measures of the NEP led to greater attention to structural factors that were holding back private sector expansion such as the dualistic structure of production. The initial focus was on reducing the size of the public sector and on establishing efficient market mechanisms that would give the right signals to private investors. The goal for the public sector was to enhance its efficiency and transparency and to free up resources to devote to social expenditures.

1.8 One of the more noteworthy initiatives in the mid-1990s was the Capitalization program whereby the government offered 50 percent ownership interest in the largest state-owned enterprises to foreign investors where the purchase price was to be in the form of capital investments to upgrade and expand output. The government then decided to transfer its shares of those enterprises to Bolivian citizens to be held in trust by the then newly created pension fund administrators. With the introduction of the Capitalization program, the Bank changed the focus of its 1993 country assistance strategy to support the government's new initiatives. In order to optimize the benefits from the Capitalization, the government, with Bank support, developed the regulatory framework to ensure that the newly privatized sectors of the economy would operate under competitive market conditions that would attract new entrants seeking to exploit profitable opportunities. The initiative to create the market regulatory commission (SIRESE) was supported by technical advice from the Bank.

1.9 On the other hand, the timeline of the structural reforms in the mid-1990s proved to be ambitious in light of the less coherent efforts to streamline the public sector and its deficit, of the relatively weak institutional capacity to manage complex reforms, and of the disruptive effect of the political cycle which often resulted in across-the-board dislocation of government employees and shifts in development priorities, adversely impacting initiatives introduced by previous governments. In addition, the political system was fragmented with conflicting interests, thus governing coalitions had a very short lifespan, a process that reached crisis proportions in 2003 and dealt a serious setback to previous economic development initiatives.

2. Private Sector Development

2.1 Building on the successful macroeconomic program, in 1989 the Bank began to work with the government on programs to rehabilitate and restructure the key economic sectors of mining, agriculture, and hydrocarbons as well as developing incentives and establishing markets that would encourage private sector investment. The goal was to eliminate the government monopoly in key infrastructure and natural resources sectors by attracting private sector participation. Privatization was not yet part of the strategy since the Privatization Law was not to be approved until 1992. The Private Enterprise Development Project (PEDP, May 1990) was designed to address some of the impediments to private sector investment in the industrial sector, by focusing on small- and medium-sized industrial enterprises.

2.2 A breakthrough in economic reforms occurred in 1993 when President Sanchez de Lozada assumed office with a commitment to downsize the role of the government through privatization and to bolster the country's sectoral and infrastructure regulatory framework in order to attract private sector investment. The government's privatization strategy known as the Capitalization Program took on a non-traditional approach to promoting investment. Financial sector reforms dealing with the pension system, insurance and the securities markets were also part of the government's efforts to support private sector led growth.

2.3 The Bank strongly endorsed the new government's market-oriented reforms. The strategy was thus changed from that of limiting the role of the state in hydrocarbons, mining, and economic infrastructure sectors of electric power, telecommunications, transportation, and water to transferring those resources to private sector management and/or ownership. Successful implementation of this strategy involved technical work in the following areas: the legal framework for each sector; the establishment of a regulatory environment; and the process for privatizing the large government enterprises.

2.4 The Bank supported these initiatives with the Capitalization Program Adjustment Credit (CPAC, July 1995). The transfer of the government's shares in the capitalized companies to all registered adult Bolivian citizens was also linked to the reform of the pension system since these shares were to be part of a collective capitalization account to provide retirement benefits. The Financial Markets and Pension Reform Technical Assistance Project (FMPRTA, November, 1995) addressed a number of strategic reform needs in the financial system with emphasis on supporting the government's pension reforms as well as the strengthening of banking supervision and upgrading the regulatory framework for capital markets activities.

Private Enterprise Development Project (PEDP)

Objectives and Design

2.5 The objective of the PEDP (1990) was to strengthen the private industrial sector by: (i) broadening the customer base of private enterprises and enhancing their access to financing from the banking system; (ii) improving the effectiveness of public and private institutions providing promotion, training and development services to industrial enterprises; (iii) minimizing bureaucratic impediments to industrial development; (iv) improving managerial, accounting and marketing skills among manufacturers; and (v) promoting entrepreneurial development.

2.6 As a traditional Financial Intermediation Loan, the PEDP was comprised of two main components:

(a) Credit Component: the financing of investment projects by small- and medium-sized industrial enterprises (US$14 million); and

(b) Technical Assistance (TA) Component: financing of technical assistance projects through technical assistance grants to beneficiaries within the industrial sector; and for institutional development of the Central Bank in the area of development financing and management of the technical assistance fund (US$2 million).

2.7 The credit component was supposed to finance fixed assets and related permanent working capital as well as incremental working capital for industrial enterprises to expand and broaden their product offering. The TA grants were to be used for: (i) focused managerial and technological assistance; (ii) institutional strengthening of organizations providing TA to private sector firms; and (iii) other private sector development activities, including the export promotion agency INPEX. Both the credit and the TA components were to be administered by the Central Bank.

2.8 Subsequent financial sector reforms which changed the role of the Central Bank along with the introduction of the Capitalization program with associated market reforms aimed at encouraging private sector investment, led to the framing of new project objectives that were introduced through amendments to the Project Agreement. With a new Central Bank law in October 1995 limiting its responsibilities to management of monetary policy, the Central Bank withdrew its involvement in financial intermediation and other non-monetary policy activities. The credit component was subsequently transferred to the then newly-formed National Development Finance Corporation (NAFIBO).[5] The technical assistance component was also transferred to a newly formed autonomous entity Technical Assistance Services (SAT) an agency that had been established in May 1993 within the Ministry of Industry and Commerce.[6]

2.9 Project scope was also expanded following President Sanchez de Lozada's Capitalization initiative in 1993. In 1995, two additional objectives were added to the project: (i) assisting the government with the privatization and/or capitalization of government owned enterprises; and (ii) strengthening the regulatory capacity of the then newly formed Sectoral Regulatory Agency (SIRESE).[7] The new objectives were supported by provision of Technical Assistance to the Ministry of Capitalization and to SIRESE. The project was expected to disburse on a continuous basis with a planned closing date of June 1995, with US$14 million assigned to the credit component and US$2 million to the TA component.

Implementation and Achievement of the PEDP Objectives

2.10 In view of the Central Bank's reorganization, progress was slow for both the credit and the TA components of the project. Allocation of project funds under the credit component was twice reduced from US$14 million to US$5.2 million, and re-allocated to the TA and then to the privatization components.

2.11 Disbursements under the credit component were adversely impacted by implementation problems. Initially demand for use of the credit line by participating commercial banks was held

[5] Amendment dated August 1996 transferred the credit component from the Central Bank to NAFIBO.

[6] Amendment dated March 1994 transferred the TA component to the SAT.

[7] These new objectives were introduced by an amendment dated July 1995.

back due to a competing IDB credit which offered more attractive terms and a more streamlined credit approval process. When the Central Bank exited from development financing, there was another 18-month delay in disbursements. The National Finance Company of Bolivia (NAFIBO) was created by the Central Bank Law in 1995 but did not commence operations until September 1996 as a second-tier development finance institution with ownership divided between the government, 80 percent, and Andean Development Corporation (CAF), 20 percent. As a new lending institution, NAFIBO was constrained in its ability to rapidly grow the loan portfolio. But with greater attention to the needs of micro-scale lending, NAFIBO was able to accelerate disbursements during the last year of the project. Total disbursements under the credit component amounted to US$5.2 million. Of this total, there were 32 sub-loans to small and medium-scale enterprises for a sub-total of US$2.6 million, of which one-third were actually for the tourism industry, which represent services rather than industrial activities, and another US$2.6 million was disbursed by NAFIBO for micro-scale financing through micro-financed institutions. These loans basically provided longer term maturities than available directly from the commercial banks and also gave micro-scale enterprises greater access to credit. The majority of credits for micro-finance were to women (60 percent). The micro-finance portfolio also exhibited significantly lower incidence of problem loans than those to small and medium sized industrial enterprises.

2.12 The TA component started out as an innovative component but the results were mixed. The project helped establish the Technical Assistance Service (SAT) within the Ministry of Industry and Commerce, which financed TA projects undertaken by numerous organizations dealing with private sector development for a total of 2,907 sub-projects for 59,838 beneficiaries, compared to an initial project target of 1,500 beneficiaries. The SAT succeeded in establishing a platform for training and development services to industrial enterprises; however, only 7 percent of the funds were used to support organizations providing TA services to private sector firms. Sales and export promotion accounted for 32 percent of the funds, 15 percent of projects and 16 percent of beneficiaries.

Outcome of the PEDP Project

2.13 The Project's limited resources relative to the size of the financial and industrial sectors, ambitious objectives, and long-delayed implementation record did not support tangible development outcomes. The industrial sector – excluding the hydrocarbons sector, has actually diminished in importance from 24.5 percent of GDP in 1990 to 22.8 percent in 2003. Bolivia's business competitiveness index was ranked 101 out of 103 countries in 2003.[8]

2.14 The sizeable cutback in the credit component points to a very marginal impact of the project on the performance of small- and medium-sized industrial enterprises. The banking system's persistent loan portfolio problems indicate that industrial firms have not profited from increased financing or technical assistance but continue to rely on their limited cash-flow.

2.15 Micro-scale enterprises were also supported by the project, but their performance eludes the official statistics since many operate within the informal economy. The project's

[8] World Economic Forum, Global Competitiveness Index.

microfinance component of US$2.6 million represented only about 0.8 percent of total banking system credit to micro-enterprises of US$305.4 million as of 1999 and about 0.3 percent of banking system credit to the industrial sector of US$829.6 million. From a lending perspective, the PEDP had a very minor impact on the support of industrial or micro-scale enterprises.

2.16 The provision of TA services to industrial enterprises aimed at technological improvements produced limited results. Training in general management does not appear to have been successful. While it addressed the entrepreneurs' weaknesses in terms of managerial and technical deficiencies, the SAT was ill designed to work efficiently and no ongoing-surveys of beneficiaries were performed in order to gauge its effectiveness. Subsequent to project closing, the Bank abandoned this initiative which was then taken up by the IDB in 1998. In view of continuing performance problems under IDB supervision, the SAT was restructured in 2001 with greater focus on performance evaluation of individual projects and greater reliance on vouchers in terms of TA project funding.

Evaluation of Progress toward Development Objectives of the PEDP

Relevance, Efficacy, and Outcome

2.17 ***Relevance.*** The credit component of the project was intended to support private sector enterprises, but its design did not address the most relevant constraints to private sector development such as excessive government involvement, an inoperative judicial system, unclear property rights, corruption, poor infrastructure, inefficient civil service and overall weak governance institutions. The project's underlying assumption that if financial resources and managerial technical assistance were made available to industrial entrepreneurs it would trigger private sector growth was questionable. Lack of donor coordination led to low usage of the line of credit due to a competing IDB credit which offered cheaper terms. The SAT was a good idea in principle, but the original design did not take into consideration the institutional weaknesses in terms of the administration of a technical assistance agency and the lack of adequate procedures to ensure that the assistance was provided where it was needed. The support of SIRESE was well focused, although this project was to play a very minor role in the initial development of the agency, which was subsequently addressed by the CPAC. Overall relevance of the PEDP is thus judged to be *modest.*

2.18 ***Efficacy***. The two basic objectives of supporting industrial private sector enterprises through financing and technical assistance were not achieved; while the additional objectives of privatization and regulatory environment were marginal in the context of the overall sector strategy. This project was a marginal contributor to the development of micro-enterprise financing, even though this segment of the market had not been originally targeted. The support given NAFIBO appeared promising, but the Bank backed out in 1998 as the IDB and other donors assumed a more decisive influence in the development of micro-finance. Efficacy of this project is thus deemed *modest.*

2.19 ***Outcome.*** Based on a rating of modest for both relevance and efficacy, Project outcome is considered *moderately unsatisfactory*. The project did not adequately account for the obstacles for private sector development, the rationale for credit induced growth was not clearly justified and the TA component was not very efficient in channeling support to where it was most needed by industrial enterprises.

Institutional Development Impact

2.20 The project touched on several areas of institutional development: development financing and micro-scale lending, technical assistance for small- and medium-sized private enterprises, assistance with privatization and establishment of a sectoral regulatory framework, but in each case the impact was modest. The institutional development impact of the PEDP is thus considered *modest.*

Sustainability

2.21 The private sector is still very vulnerable to adverse economic and political factors, with the micro-scale sector struggling to gain a firmer footing. While the establishment of the SAT program was helpful in providing technical support to small and medium scale enterprises, it was not until much later after the Bank had exited from this type of activity that the restructuring of the SAT in 2001 created a more effective program to assist micro-scale enterprises. Nevertheless, it is unclear whether the government will continue to support this entity. Because of the minimal role played by the privatization and the regulatory objectives, the sustainability of these components is addressed by the CPAC and the FMPRTA. Sustainability of this project is thus considered *unlikely* in view of its limited development contributions and the high degree of uncertainty in the short and medium-term.[9]

Bank Performance

2.22 Insufficient analysis of the limiting factors in the development of industrial enterprises such as inadequate governance structures as well as the lack of justification for the use of directed credit for industrial enterprise development raise questions about the quality of the Bank's assessment. At the time of project design plans were already being made to reform the Central Bank Law to focus exclusively on monetary policy. The Bank should have considered other options to the Central Bank as implementing agency for the credit component or to have focused only on the TA component. As a brand new entity at the time, the Technical Assistance Service (SAT) should have been subjected to closer scrutiny and evaluation. No audits of SAT-financed projects were performed. The SAT did not receive sufficient institutional support or guidance from the Bank in this respect. When the Bank exited this service in 1998, SAT had become inefficient. The addition of new components to the project unnecessarily added to increased project complexity. *Bank performance is downgraded to unsatisfactory.*

Borrower Performance

2.23 The government was committed to policy reforms such as maintaining market-determined interest rates in development lending. However, project execution was long delayed,

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[9] The Government states that it expects that the achievements of the PEDP will be sustained. See Annex H.

the implementing agency was slow to provide expected reports and information, and showed uneven commitment to project activities. With respect to the SAT, it was not until well after the closing of the project, in 2001, that the government, pressured by the IDB, addressed the structural problems of the agency and implemented a new system with greater accountability. *Borrower performance is considered unsatisfactory*.[10]

The Capitalization Program Adjustment Credit (CPAC)

Objectives and Design

2.24 The aim of the CPAC was to assist the government:

(i) to establish an appropriate legal and regulatory framework for the energy and physical infrastructure sectors (SIRESE) and for the non-banking financial system in order to attract private investment and spur growth in an efficient manner; and

(ii) to divest and capitalize key, large public enterprises.

2.25 CPAC consisted of original financing from IDA of US$50 million, which was increased by amendments incorporating IDA re-flows of an additional US$15.3 million. Co-financing of US$82 million was provided by Inter-American Development Bank, for total financing of US$147.3 million.

2.26 Loan disbursements were structured in four tranches, a first tranche to be released immediately after Board approval, and three floating tranches each of which addressed a different area of the project and would be triggered based on specific conditions. The tranche release conditions were as follows:

2.27 ***First tranche (US$10 million):*** This tranche was conditioned on the following:

a. Approval of the Capitalization and the SIRESE Laws which provided the backbone to the Capitalization Program and the new regulatory entity.

b. Passage of a new Electricity Law and agreement on capitalization of the state-owned electric power company (ENDE).

c. Amendment of the Tax Law to establish a new corporate tax regime.

d. Presentation to Congress of the Hydrocarbons Law.

e. Presentation to Congress of a new Telecommunications Law.

[10] The Government states that it considers Borrower Performance with regard to the PEDP to have been satisfactory. See Annex H.

f. Agreement on basic principles of a revised pension system based on privately managed defined contribution pension funds to gradually replace the current one.

2.28 ***General Capitalization tranche (floating, US$10 million***): Release of funds would depend on issuance of regulations to implement the Electricity Law, passage of a new Corporate Tax Law, passage of the Telecommunications Law, on the issuance of regulations to implement the SIRESE Law as well as the staffing of key SIRESE positions and on implementation of the competitive bidding process for capitalization of the Telecommunications company (ENTEL).

2.29 ***Hydrocarbons tranche (floating, US$20 million):*** Conditions for disbursement were approval of the Hydrocarbons Law and associated regulations for its implementation, issuance of regulations for implementation of the new excise taxes on petroleum products, and establishment of staffing of regulatory agencies to award concessions and to monitor compliance with regulations; and issuance of tender documents for capitalization of the National Hydrocarbons Company (YPFB).

Box 2.1: Principal Elements of Legal Reforms

Infrastructure & Natural Resources

Electricity Law: define the responsibilities of the Superintendency of Electricity within SIRESE; principles for tariff setting; separation of generation, transmission and distribution functions into different companies; open access to transmission and distribution; establish principle that future investment needs will be supplied by the private sector; and introducing anti-trust provisions.

Hydrocarbons Law: establish the right of free disposition of production; deregulation of petroleum product prices; jurisdiction of the Superintendency of Hydrocarbons within SIRESE; regulatory provisions to ensure open third party access to the sector; elimination of direct and indirect barriers to entry and provisions for the capitalization of YPFB.

Telecommunications Law: define the responsibilities of the Superintendency of Telecommunications within SIRESE; establish the principles for new tariff structures; specify the role of the Superintendency in regulating tariffs when there is no competition; set rules for obligatory interconnection of networks.

Financial Sector

Securities Law: ensure adequate investor protection; establishing proper supervision of stock market practices; enabling mechanisms to broaden range of financial instruments; and fostering openness to foreign investment; followed by the enactment of key regulations such as issuance, registration, listing and handling requirements for securities.

Pensions Law: provide for the reform of the existing and establishment of a new contributory retirement fund; establishment and staffing of a new Pension Superintendency.

Insurance Law: strengthen operational norms for insurance companies; establishing rules for the functioning of intermediaries and auxiliaries; broadening base of investments by insurance companies; and establish regulatory controls through the Superintendency of insurance.

2.30 ***Financial Sector tranche (floating, US$10 million):*** Disbursement was dependent on the following: Passage of the Securities, the Pensions, and the Insurance Laws.

2.31 While the timing of the individual tranches was to be determined by the completion of release conditions, the project was anticipated to close by July 1997, or approximately two years after effectiveness and to provide a total of US$50 million in financing.[11]

Implementation and Achievement of the CPAC Objectives

2.32 The loan closed approximately one year later than originally planned but after disbursing US$63 million, which included the original US$50 million plus US$13 million through amendments to the original agreement to finance additional project-related work. The first tranche of US$10 million was disbursed in December 1998; the General Capitalization tranche of US$16.6 million in April 1997; the Hydrocarbons tranche of US$23.9 million in April 1997; and the Financial Sector tranche of US$12.4 million in August 1998. All tranche release conditions were met.

Capitalization

2.33 ***Legal framework***. The Capitalization Law, which was approved in March 1994, gave the government the authority to offer a capital subscription to private sector investors up to a maximum of 50 percent ownership of the six government-owned enterprises. In addition, an investor agreement assigned full management responsibilities to the new investors. The Capitalization Law had been preceded by two other legal instruments, the Investment Law of September 1990 and the Privatization Law of April 1992. Altogether these laws established clear ground rules for implementation of the Capitalization program, which in a broader context also incorporated the privatization of numerous small to medium-sized government enterprises.

2.34 ***Support of capitalization process.*** The Bank provided strong support in terms of Economic and Sector Work (ESW) to identify alternative capitalization strategies. National Hydrocarbons Company's (YPFB) monopoly was broken up along functional areas: two exploration and production companies, a transport company, and refining and distribution companies. In the electric power sector Bolivia opted for competition in generation, breaking with the conventional wisdom that its market was too small. A compromise was struck in telecommunications whereby the cooperatives would retain monopoly over local services for six years.

2.35 ***Divestment of Public Enterprises.*** The successful capitalization bids brought in US$1.7 billion, about 25 percent of GDP, to be invested in capital improvements and expansion projects in each of the five enterprises (see Capitalization Transactions Table in Annex A). Only the government-owned smelter failed to attract a bid. Also, 53 of 72 enterprises targeted, were privatized.

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[11] The Loan Agreement was subsequently amended on April and on December 1996 and on February 1998 to increase the loan amount to a total of $65.3 million from the original $50.0 million.

2.36 ***Distribution of the capitalized shares.*** The government's shares in the capitalized companies were transferred to all adult Bolivian citizens under a trust fund managed by the new private sector pension administrators, or AFPs (Private Pension Fund Administrator). However, distribution of the benefits from capitalization was not easily implemented. There were tactical problems with the distribution of the income from the shares to retirees. With election year politics in 1997, the registration process became politicized thus conspiring against the original objectives of distributing the benefits in a transparent manner.

Development of Regulatory Framework for Natural Resources and Infrastructure

2.37 ***Legal framework***. The legal underpinnings of the sectoral regulatory system were comprised of several pieces of legislation. The first established the multi-sectoral agency under the SIRESE Law approved in October 1994. SIRESE was thus comprised of five Superintendencies: Electricity, Hydrocarbons, Telecommunications, Transportation, and Water. This was followed by individual sector laws: the Electricity Law, December 1994; the Telecommunications Law, July 1995; and the Hydrocarbons Law, April 1996. The sector laws defined the role of SIRESE in each of the sectors. In the water sector, a Water and Sewer Service Law was approved in October 1999 which provided the legal basis for the establishment of a Superintendency and then the 1906 Water Law was modified in April 2000, but regulations have still not been issued. A Transportation Law has not yet been considered by Congress in part due to strong opposition from both government and private sector stakeholders.

2.38 ***SIRESE.*** The first Superintendency to begin operations was Telecommunications in November 1995. The Transportation, Electricity and Hydrocarbons Superintendencies were initiated during the first half of 1996, although the Superintendent for Hydrocarbons was not appointed until March 1997. The Water Superintendency began to operate during the first half of 1997. All firms operating in the five regulated sectors are supervised by SIRESE. Within the hydrocarbons sector, exploration and production remained under the purview of the Ministry of Energy and YPFB.

2.39 The initial roster of regulated firms was as follows: in the Telecommunications sector there were 18 phone companies and 697 other communication services providers such as radio, TV and radio taxis; in Transportation, 2 railway companies, one airport, and 22 air service companies; in Electricity, 4 generators, one transmission company, and 12 distribution companies, which comprised the national grid, and 12 secondary grids; and in Hydrocarbons, 3 transportation companies, 5 natural gas distributors and 495 distributors of hydrocarbon products, including 347 gasoline service stations.

Strengthening of the Financial System

2.40 ***Legal infrastructure***. The Banking Law of April 1993 and the Central Bank Law of October 1995 provided the legal background for additional financial system reforms. The Pension Law was approved in November 1996, with technical support from the FMPRTA. The Securities Law was approved in March 1998, followed by the Insurance Law in June of that year. Another related legislation was the Popular Credit and Property (PCP) Law of June 1998, which addressed a number of areas in the financial sector, especially the reform of the pension system.

2.41 ***Insurance and securities markets***. Passage of the Insurance and Securities Laws established a base for upgrading the regulatory framework and to strengthen these financial markets, especially the ability of insurance companies and securities dealers to meet the growing demand from the private pension system.

Outcome of the CPAC Project

Capitalization

2.42 The Capitalization Program succeeded in attracting more investment than originally anticipated, and as a result, there was a notable increase in private investment activity during 1996-2002.

Table 2.1: Private Investment

	1992-1995	1996	1997	1998	1999	2000	2001	2002
Private Investment as % of GDP	6.7	8.7	13.2	18.2	14.6	12.7	8.4	9.9

2.43 Capitalization generated benefits in numerous areas including the following:

- There has been an improvement in the quality and quantity of services particularly in telecommunications and energy;
- The capitalized companies have contributed in terms of fiscal revenues;
- The investors in the capitalized companies assumed the debts of the old enterprises, thus helping to reduce the government's outstanding debts;
- Jobs were created, but not as many as expected;
- The capitalized companies added value to the peoples' shares in the companies thus contributing to greater retirement benefits for adult citizens; and
- The affordability of some infrastructure services improved.

2.44 ***Development of natural gas reserves.*** Possibly the greatest potential benefits to Bolivia from the Capitalization program in terms of financial resources have accrued in the hydrocarbons sector. Proven reserves of natural gas have increased from 4 trillion cubic feet (tcf) in 1997 to 28 tcf in 2004, with a potential market value of US$56 billion. Probable reserves have risen from 2tcf to 25 tcf during the same period.

2.45 ***Infrastructure services.*** The investments in the Capitalized companies and the additional investments encouraged by the new regulatory framework improved the productivity and supply of infrastructure services in some sectors. The impact of Capitalization and regulatory reform in terms of access to telecommunication services has been noteworthy. The number of cellular service lines increased from 420,000 in 1999 to 1.4 million in 2003 (see Table on Selected Indicators: Sectoral Infrastructure & Capitalization in Annex A). Competition seems to be working in this sector as new providers have entered the market. The benefits from telecommunications have been the most visible and accessible to the population. For example, micro-scale entrepreneurs have benefited from the communications capabilities of cellular phone service.

2.46 In the electric power sector, the Superintendency has focused on improving coverage of electricity distribution and on getting the prices right in the sector. The development of marginal cost pricing combined with the use of spot market prices to reflect the cost of congestion and of adequate power reserves contributed to the timely investment in electric power generation following the initial shortfall in generating capacity in 1999. This expansion in generating capacity has resulted in greater reliability in the supply of electric power to consumers as shown by the 8.0 percent per annum growth in the consumption index during 1995-2003.

2.47 However, the outcome in the transportation and water sectors has been less noticeable. While the railways have improved the transportation of mostly cargo, the national airline has been a financial drain on the government. Without a Transportation Law the possibility of more private sector participation in this sector is severely constrained.

2.48 In the case of water, the privatized company, *Aguas del Illimani*, the La Paz and El Alto water company made significant progress in meeting its commitments under the water concession agreement. Before privatization, *Aguas del Illimani* was a decentralized municipal agency. After privatization and with implementation of the concessions agreement, sewerage coverage in El Alto, which had hovered at levels around 40 percent during much of the 1990s before the concession, increased to 53 percent by the year 2000 through investments made by the company. Water coverage increased by some 20 percentage points after 1997 attaining universal coverage by 2000. More than 80 percent of new water and sewerage connections made by *Aguas del Illimani* were made in the poorer areas of the city.

Table 2.2: Natural Resources and Infrastructure Indicators Annual Average Growth 1995 – 2003

	Quantity/ Volume	Price
Natural Gas		
Exports	19.7	NA
Reserves	57.2	NA
Telecommunications		
Consumption Index	22.0	-3.7
Electric Power		
Consumption Index	8.0	6.9
Transportation		
Rail Transport	4.8	1.1
Air Transport		
Passenger	6.3	NA
Cargo	-5.5	NA
Road Transport		
Passenger	13.2	NA
Cargo	10.0	NA
Water		
Consumption Index	3.2	19.4

See Annex A for more detailed information

2.49 Because of the controversy associated with the Cochabamba Water war in 2000, no other privatizations in the water sector were realized other than *Aguas del Illimani*. In the aftermath of the October 2003 political crisis, the water company became the target of highly vocal public demonstrations which led the government to challenge the concessions contract with *Aguas del Illimani* for the *El Alto* area, thus potentially jeopardizing the company's investments of more than ten years in meeting their service commitments to the community as established in the original concessions contract. In January 2005, President Mesa instructed the Superintendent of Water to terminate the contract with Aguas del Illimani. To date, however, the contract has not actually been rescinded. At this point the status of water service in El Alto is unclear although the company has continued to comply with its other services commitments.

2.50 ***Financial performance of Capitalized enterprises.*** Financial rates of return for the capitalized companies have varied across sectors (see Performance of Capitalized Companies

Table in Annex A). The railway companies seem to be reaping greater profitability, perhaps due to the importance of the export corridors. The companies in the hydrocarbon sector appear to have done consistently well, although a better comparison would be to the rate of return to investors in the *de-novo* exploration and production companies that were attracted by the favorable regulatory environment. The outcome in electric power has been mixed, where the negative returns reflect the cost differentials between thermal and hydro power where the former has benefited from the newly found and low cost gas reserves. In the transportation sector, the outcome of the national airline Lloyd Aereo Boliviano (LAB) has been disappointing. LAB did very poorly after capitalization and was re-capitalized by the government since the airline provides essential domestic air service between key cities.

Development of Regulatory Framework for Natural Resources and Infrastructure

2.51 While SIRESE has aptly developed its role as regulator with Bank support, particularly in the telecommunications and electric power sectors, a number of issues ranging from pricing to public relations and to political interference have plagued the development of the regulatory system. Experience has shown that regulators need to be more proactive in correcting price signals. For instance, in the case of electric power, intra-company or transfer pricing at below-market value for gas supplied by affiliates of power generators has disrupted the ability to compete vis-à-vis hydroelectric power generators. Concessions contracts require electric power distributors to purchase 80 percent of their power through long-term contracts with generating companies based on node prices; however, the leading generating companies continue to sell on the spot market rather than on a contract basis.

2.52 Weakness in the water and transportation sector has limited the achievement of the objectives of regulatory reforms. A modification to the Water Law in 2001 interposed that any decisions on water tariffs made by the Superintendency have to be supported by a technical opinion on the proposed changes from the affected municipalities, thus posing potential challenges to the regulatory process. Again the recent government action to suspend the *Aguas del Illimani* concession in *El Alto* went against the normal process of regulatory oversight. The capacity of the water Superintendency to regulate the sector while working with the financially strapped water cooperatives to sign concession agreements is severely limited due to its own scarcity of financial resources. Currently the Water Superintendency is unable to cover its costs with user charges. The effectiveness of the transport Superintendency has been curtailed by the absence of a Transportation sector Law, for instance the lack of clear division of responsibility between the Superintendency and the civil aviation authority.

Recent Challenges to Capitalization and the Regulatory Environment: A Return to Nationalization and the Practice of Regulatory Interference

2.53 The successful impact of Capitalization and the new regulatory environment on private sector investment experienced during the first five years of the reform program have since been compromised by chronic political problems and by rising opposition to Capitalization and to private sector participation in infrastructure services.

2.54 The crescendo of political opposition to the Capitalization Program, fueled by the perception that these reforms have not improved the economic wellbeing of Bolivians, has produced a political backlash with calls for re-nationalization of those resources. Congress had been debating a new draft of the Hydrocarbons Law since mid-2004, which was finally approved in April 2005 dealing a blow to the original goal of placing these resources under private sector management. The new Law grants the government greater control over the sector, including the re-capitalization of YPFB possibly using the proceeds from capitalization that had been transferred to Bolivians under the FCC fund (Collective Capitalization Fund), substantially hikes petroleum taxes, and imposes new terms on existing concessions contracts. By changing the rules that were established by the existing concessions contracts, the new Law could halt future foreign investments not only in hydrocarbons, but in other strategic sectors of the economy. There is still the possibility that another reform to the hydrocarbons law could consolidate government ownership and control over the industry.

2.55 Somewhat “isolated” from the consumer and vulnerable to political interference, SIRESE has been struggling to become accepted as the arbiter of good market practices. SIRESE has also lost its financial autonomy as government austerity measures have choked off spending by the sectoral regulatory agencies even though they are self-funding. Currently five of the six Intendents are in an acting status as Congress has not yet nominated the candidates for a permanent position, thus the interim Intendents are political appointees of the executive branch. Congress has also considered proposals calling for a restructuring of SIRESE that would take away its regulatory autonomy.

Evaluation of Progress toward Development Objectives of the CPAC

Relevance, Efficacy, and Outcome

2.56 ***Relevance.*** When the government embarked on the Capitalization program there was a gap in the regulatory environment that needed to be filled in order to support private sector investment in a competitive environment. The establishment of SIRESE and the Bank’s role in its design thus became an important element of that program.

2.57 Yet the design of the CPAC did not adequately account for a latent, and as has become evident in recent times, widespread political opposition to privatizing the country’s natural resources and infrastructure sectors, specifically hydrocarbons which are now being threatened with nationalization. The design of the Capitalization strategy was based on an unexpected “short” window of opportunity seized by a new government in 1993 to privatize the major industrial enterprises. Greater analysis at that time of the potential political opposition to these initiatives could have resulted in the consideration of other alternative to capitalization such as a phased approach.

2.58 The infrastructure sectors differed in terms of the initial conditions for capitalization. Telecommunications and electric power were indeed good candidates. On the other hand, water and transportation were lagging behind in terms of institutional capacity and political support. In fact the CPAC did not address the need for new sectoral laws in water and transportation sectors. The Hydrocarbons sector was the most controversial due to the magnitude of these resources.

2.59 Bank staff recognized the risks associated with the Capitalization program and with the financial markets reforms but felt perhaps optimistically that they could be overcome. The introduction of floating tranche releases in the CPAC was viewed as an effective mechanism for dealing with risks. However, the CPAC did not adequately address fiscal, political and social issues associated with the reforms, dimensions that in retrospect have emerged as fundamental in this area. For the above reasons the relevance of the CPAC design is deemed *modest*.

2.60 ***Efficacy.*** The goal of transferring five of the six large public sector enterprises was achieved with the caveat concerning the hydrocarbons sector and the recent modifications to the Hydrocarbons Law. The legal reforms needed for the establishment of the regulatory framework (SIRESE) were achieved and the new entities were adequately staffed. However, subsequent changes in government have posed a continuing threat to the staying power of the newly formed regulatory entities. The passage of the securities law was an important accomplishment, but was not sufficient to trigger greater activity in the capital markets. In fact only one capitalized company has listed its shares in the securities exchange. Thus there appears to be insufficient evidence that the securities markets reforms have yet succeeded in attracting new investments. Overall the efficacy of the CPAC is considered *substantial*.

2.61 ***Outcome.*** Outcome of the CPAC is downgraded to *moderately satisfactory*. The objective of the CPAC was to attract private investment and spur growth in an efficient manner and to divest and capitalize key large public enterprises. Privatization in hydrocarbons was partially reversed with the re-establishment of the parastatal, the investment objective, while achieved for a while, is not now being met. Capitalization in the air transportation sector did not work. The increasing isolation of SIRESE and greater incidence of political interference also limit its effectiveness.

Institutional Development Impact

2.62 The successful capitalization of the large public sector enterprises resulted in more effective private sector management of these entities and the establishment of a comprehensive sectoral regulatory framework which contributed to more efficient and competitive markets. The exceptions to these developments are the transportation and the water sectors. The establishment of SIRESE was an important contribution to the orderly and efficient operation of markets despite political interference. For these reasons, institutional development impact is deemed *substantial*.

Sustainability

2.63 Private sector investment in the hydrocarbons sector has unleashed sizeable increases in reserves of natural gas and prospects for exporting liquid gas. Ironically, Congress is now considering a new Hydrocarbons Law that would deal a setback to the goals of the Capitalization strategy by reintroducing government control over policies in this sector and severely limiting the role of the private sector. At the same time the government has been unable to reach a decision regarding the export of natural gas due to political opposition to the exports of gas, particularly the opposition to a Chilean port option. The likelihood of similar restraints on private sector development in the other infrastructure sectors is high.

2.64 Ten years after its inception, SIRESE has managed to establish a credible market enforcement mechanism in a number of areas with visible successes in telecommunications, electric power, and until recently, hydrocarbons. However, with every change in government, new attempts at increasing political interference have challenged its staying power. The recent political crisis threatens to undermine its survival. The sustainability of an independent regulatory agency hinges on its autonomy, both financial and regulatory. The current political environment is not conducive to the continuity of this institution and until the political stakeholders accept the autonomy of a regulatory agency, its sustainability is questionable.

2.65 The political and social developments of the last several years indicate a substantial risk -- but not a certainty -- of further reversals of the progress made in some areas under the capitalization program. There are some areas -- particularly in telecommunications and electric power sectors -- where this risk is low. However, on the basis that the political decision process that could resolve pending issues -- particularly with regard to hydrocarbons -- is ongoing and that there is a great deal of uncertainty concerning outcomes, the sustainability of the CPAC is thus considered *non-evaluable*.[12]

Bank Performance

2.66 The Bank endorsed the new Government's capitalization strategy and provided very useful policy advice particularly in relation to the regulatory framework. The Bank ably seized the opportunity to put together a very effective team of advisors to help build the legal and regulatory underpinnings for sound private sector participation in the key sectors of hydrocarbons, telecommunications, electric power, and transportation, which represented the pillars of the Capitalization program. The Bank was able to draw on an extensive knowledge base drawn from its experience with similar capitalization programs in Eastern Europe. Bank support has thus been a decisive factor in the development of SIRESE, starting with the design of the regulatory framework and subsequent work in institutional development.

2.67 The Bank focused on its comparative advantage of providing advice on legal and regulatory reforms. The Bank provided valuable support in terms of ESW to identify alternative Capitalization strategies. The Bank also advised the government to seek well-known names in the international investment banking business in order to ensure the transparency of the individual transactions and to attract investments from key global players in these industries.

2.68 On the other hand, in view of lack of 'regulatory culture,' a more forceful, concentrated and sustained Bank support, through a larger component and/or stand-alone operation, could have made a material difference to SIRESE's development. Perhaps there were in each sector more options for privatization and/or private sector participation that could have been considered and that might have diffused some of the opposition to reform. For instance, there are in different energy-producing countries different models of public and private ownership and management within the hydrocarbons sector. Greater attention could have been given to political as well as popular opposition by focusing the communications campaign on the advantages and the 'why'

[12] The Government states that it expects the achievements under the CPAC to be sustained. See Annex H.

of capitalization, before the program was implemented. *Bank performance is thus downgraded to satisfactory*.

Borrower Performance

2.69 **Capitalization Program Adjustment Credit**. There was a strong commitment to the reforms by the government of President Sanchez de Lozada who proposed these bold initiatives as part of his reform program upon taking office in 1993. However, greater attention to popular and political opposition to capitalization should have been considered as this may have been relevant in the design of a strategy that would have garnered wider support for the reforms. Back tracking by the government in terms of recent legislative initiatives to re-nationalize hydrocarbon resources mars the positive implementation during the earlier period. Political interference in the affairs of SIRESE, such as questioning of its usefulness by incoming governments, has undermined its effectiveness as a regulator. *Borrower performance is rated satisfactory.* [13]

The Financial Markets and Pension Reform TA Project (FMPRTA)

Objectives and Design

2.70 The project's main objectives were to strengthen the institutional capacity of the Ministry of Capitalization, the National Securities Commission (CNV) and the Superintendency of Banking and Financial Institutions (SBEF) to: (a) operate and regulate pension funds and securities markets; and (b) regulate and supervise banking and financial activities in Bolivia.

2.71 This project was to assist in developing the regulations, norms, institution-building measures, and information systems connected with the financial sector components of the CPAC. The four major components of the TA project were:

i. **Pension Reform**: Establish the institutional structure and information systems necessary for regulation and supervision of the proposed pension and capitalization distribution system (US$4.1 million of project funds);

ii. **Capitalization Program**: establish a transparent and efficient process for the distribution of the capitalized shares (US$1.4 million);

iii. **Securities market regulations**: improve securities regulation and improve information systems to regulate market activities through institutional restructuring, training, and information systems (US$1.2 million);

iv. **Superintendency of Banks (SBEF)**: Continue the institutional strengthening of the Superintendency of Banks in the areas of prudential norms, strengthening of human resources, institutional development, upgrade of information systems, and update of operational guidelines (US$2 million).

[13] The Government states that it considers Borrower Performance under CPAC to have been satisfactory. See Annex H.

2.72 The project was designed to disburse US$8.7 million during January 1996 – June 1998 with the bulk of the funds to be utilized during the first year in line with the initial implementation of the Capitalization Program.

Achievement of the FMPRTA Objectives and Implementation

2.73 ***Regulatory Agencies.*** On an institutional dimension, the PCP Law consolidated the Superintendencies of Pensions, Securities and Insurance. This decision had a very positive strategic significance from the point of view of economies of scope for the regulatory agency and for greater coordination of norms and procedures. The FMPRTA project supported the merger of these regulatory agencies. The PCP Law also established an inter-agency committee (CONFIP) in charge of coordinating the norms that should be applied to the financial system. However, in 2002 a new government restructured the financial system regulatory framework and disbanded CONFIP and assigned the Superintendency of banks the sole responsibility for this function.

2.74 ***Pension Reform.*** The FMPRTA provided support in the drafting of the Pension Law, which was approved in November 1996. The initial design was to introduce a privately managed defined-contribution system as an alternative to the public sector defined-benefit fund (FOPEBA) and its complementary funds (FONCOMs). In the final version, the Law called for the closure of the public system and transfer of all public system beneficiaries to the new private system managed by AFPs. As explained in the next section, this proved to be a strategic mistake. Two AFPs were selected based on an international competitive bidding process. All adult Bolivians aged 65 and older were made eligible to receive the benefits from the transfer of the government's shares in the capitalized companies in the form of an annuity called the Bonosol with the amount to be determined by the value of the shares held in trust by the AFPs.

2.75 ***Banking Supervision.*** Resources from the FMPRTA financed improvements in banking supervision. The Superintendency developed new regulations for risk-based loan evaluations. Bank examiners and supervisors were trained on these new techniques. Resources were also applied to strengthening the off-site and on-site supervision, data collection and reporting systems, the credit bureau, and the financial information reporting systems.

2.76 ***Insurance and securities markets.*** The Superintendency of Securities has been implementing the securities market regulations. Clear and transparent rules were established for the issuance of securities that are in line with international best practices. The capital markets registry has also been established with the goal of registering all financial markets participants. However, the Superintendency may be challenged in terms of its ability to monitor and regulate price share volatility, price manipulation, insider trading within a shallow secondary market. International credit rating agencies have established a presence in the country.

Outcome of the FMPRTA Project

Pension Reforms

2.77 Pension reforms have produced two outcomes: one positive in terms of a new defined-contribution privately-managed pension system that has made good progress in terms of building a viable contractual savings mechanism, and the other has generated a substantial liability for the government due to the badly designed transitional arrangements from the old pay-as-you-go public pension system to the new system. At the same time, the government's distribution of pension benefits arising from the transfer of its shares in the capitalized companies to Bolivian citizens has been fraught with irregularities and financial missteps.

2.78 The current pension system, based on individual capitalized accounts that are managed by AFPs, will eliminate future government liabilities from new entrants into the labor force, since affiliates of this new system will receive retirement benefits based on their actual contributions and on the accumulated earnings generated by the investment of these resources. Progress has been made in terms of population coverage, 18.8 percent of the economically active population (EAP), and size of the investment funds, which have reached 6.3 percent of GDP; nevertheless, much greater efforts are needed in order to reach a wider scope of the working population, particularly in the lower income brackets. The investment portfolio of the AFPs is still highly concentrated in government securities, 66.5 percent of the portfolio in March 2004. The AFPs have also not been given the green light by the Central Bank to make foreign investments, even though the law allows foreign investments up to a certain percentage of assets. The AFP's inability to make foreign investments has resulted in an opportunity cost for the affiliates. Despite these challenges, rates of return in local currency have significantly exceeded inflation.

2.79 On the other hand, the design of the transition from the public pension system lacked adequate safeguards and was manipulated politically in response to numerous public demonstrations, which combined with complicated procedures that were prone to abuse and fraud, created a huge financial albatross for the government. The government's decision to recognize all prior contributions to the public pension system including the assumption of liabilities of Complementary Pension Funds for which it had never assumed any financial responsibility as well as the overly generous offers for early retirement at the government's expense administered by a highly inefficient apparatus which was conducive to fraudulent claims applications have compromised the financial viability of pension reform. In order to finance the cost of pension reform, which is estimated at about 5.0 percent of GDP per year, the government has in turn imposed on the AFPs the requirement to invest in government securities and to swap good assets of the affiliates' investment funds for lower quality blocks of shares in the capitalized companies that are being held in the collective Citizens' Trust Fund.

Table 2.3: Pension System Indicators

	Period	Indicator
Value of Pension Funds		
Balance (US$ mill)	Year-end 2003	$1,445
percent of GDP		6.3
Number of Affiliates	2002	760,959
percent of EAP		18.8
Return on AFP Funds		
Avg. Annual Rate (%)	1999-2003	16.1

NOTE: return is expressed in terms of domestic currency.

Banking Supervision

2.80 While the new prudential norms have strengthened risk management tools, the banking problems which had accumulated over years of easy lending and insufficient regulatory oversight had only begun to surface when these new norms were implemented. Commercial bank financing had grown too rapidly during 1996-1998 in response to the oil boom, the construction boom and fueled by speculation. The new norms were introduced at the peak of an aggressive credit expansion cycle at a time when the economy was beginning to weaken noticeably. The need to shore up loan loss provisions severely compromised the capital base of some banks. Limited attempts at reinforcing the banks were made through a subordinated debt problem underwritten by the government, but unfortunately it did little to relieve the burden of problem loans. Experience with financial crises in the neighboring economies of Argentina (2002) and Chile (1983) shows government actions as decisive in terms of providing substantial support early on when the banks faced their greatest challenges. Similar efforts could have been implemented by the Bolivian government at the time the banks began to adopt new prudential norms, rather than the approach of regulatory forbearance. Of course the lack of fiscal resources may have presented a hurdle. One advantage Bolivia has with respect to the Argentinean / Chilean experiences has been the absence of currency volatility. The limited workout process has nevertheless taken a toll on bank performance with only a modest recovery as of 2003.

Table 2.4: Banking system Indicators

	1998	1999	2000	2001	2002	2003
Total Assets (million US $s)	5,682	5,578	5,038	4,605	4,075	3,813
ROE (%)	9.2	8.4	(9.5)	(4.3)	0.7	2.8
Problem Loans / Capital + provisions	35.2	42.5	56.2	63.2	65.2	61.2
Liquidity (% of liabilities)	26.2	31.0	31.3	38.8	37.4	36.3

Insurance and Securities Markets

2.81 Performance of the insurance industry as demonstrated by the expansion in insurance premiums has improved noticeably following the economic downturn in 1999-2000. The insurance industry has also benefited from the growth of the new pension system. Affiliates are required to include accidental and disability insurance as part of their monthly contribution to the pension system. Those premiums became the second most important source of industry revenues in 2003. General insurance has also improved averaging 9.0 percent per annum growth during 2001-2003.

Table 2.5: Insurance Premiums (US$ 000s)

	1998	1999	2000	2001	2002	2003
General Insurance	59,631	56,727	53,377	55,796	64,434	69,215
FCI: accidental & disability				5,128	40,229	45,266
Individual	14,627	20,020	25,529	28,346	27,735	29,473
Other	1,170	1,250	1,735	10,320	8,532	9,914
TOTAL	75,428	77,997	80,641	99,590	140,930	153,868

2.82 The new Securities Law established the legal framework for the development of the capital markets; nevertheless the volume of trading in the securities market has been declining. The market is still dominated by fixed income securities. The declining share of government securities traded in the securities exchange may also reflect the forced investment requirements of the AFPs which are in the form of purchases of non-tradable government bonds, thus limiting the liquidity in the secondary debt market.

Table 2.6: Securities Exchange: Volume of Transactions

	2001	2002	2003
(US$ 000s)			
Fixed Income	3,770,964	2,378,541	1,599,084
of which: Government	1,833,109	1,135,283	652,967
Equities	1,309	91,243	2,219
Total	3,772,273	2,469,784	1,601,302

Evaluation of Progress Toward Development Objectives of the FMPRTA

Relevance, Efficacy, and Outcome

2.83 **Relevance.** The reform of the pension system was of critical importance to the development of a more efficient financial system which would support private sector growth. However, the design of the pension reform strategy could have been more sensitive to the institutional weaknesses in the administration of the public pension system. The passage of a Pension Law and a government commitment to overhaul the then existing pay-as-you-go system was not sufficient to address the complex issues associated with the transition from the old to the new system. The problems of the transition were compounded by political pressures to make the benefits of the new pension system overly generous. Drafting and passage of a law in this case was not sufficient to achieve the objective of operating and regulating the pension funds market in a sound manner. While the FMPRTA project reflected a good diagnosis of the challenges in the development of the financial system, institutional weaknesses and political interference were not fully considered in the project's design and subsequently diminished the reform benefits. Relevance of the FMPRTA is considered *modest*.

2.84 **Efficacy.** The unexpectedly large fiscal cost of pension reforms, the negative spillover effects of financing the public pension deficit with the resources from the private pension funds, and the lingering problems in the banking system have limited the extent of achievement of the project objectives. This project achieved the objective of strengthening the regulatory environment in the pension, securities and insurance sectors. The creation of CONFIP was an important step in coordinating the roles of the regulatory agencies in addressing issues affecting the development of the financial system, but its elimination in 2002 was a significant setback. The new pension system managed by the AFPs is off and running, although recent decisions by the government to transfer part of the capitalization shares held in the trust fund for individual capitalization accounts of AFP affiliates to cover the government's cost of current retirement benefits paid under the old system poses a threat to the financial viability of future retirees. For the above reasons, efficacy of the FMPRTA is considered *modest*.

2.85 ***Outcome.*** Outcome of the FMPRTA is downgraded to *moderately unsatisfactory* based on a rating of modest for both relevance and efficacy, particularly in view of the high fiscal cost associated with the design of the public sector pension reform. Continued weakness in the banking system also suggests that greater attention should have been given to the bail out requirements of the banks following the implementation of the new prudential norms.

Institutional Development Impact

2.86 This project resulted in significant improvements in the institutional framework of the regulatory agencies particularly the Pensions, Securities and Insurance Superintendency. The reinforcement of banking supervision practices and the introduction of new prudential norms contributed to the institutional advancement at SBEF. However, the project failed to address the need to make these new institutional arrangements operationally effective. At the same time, there was a lack of critical institutional support for the transition from the old to the new pension system. Institutional development impact of the FMPRTA is thus rated *substantial*.

Sustainability

2.87 Closure of the government's defined-benefits pay-as-you-go pension system and its replacement with the new defined-benefits system managed by the AFPs was a good idea on paper. However, a badly designed transition from the old to the new system exposed the process to politicized management of pension benefits and opportunities for fraudulent claims by beneficiaries with only limited enforcement powers by regulators. The magnitude of the pension deficits arising from valid and non-valid recognition of liabilities under the old system have led the government to tap into the resources of the new defined-contribution pension system posing a serious challenge to the sustainability of the new system. On the other hand, the improvement in the regulatory environment of the financial system bodes well for future growth of financial intermediation. However, significant weakness of the banking system still poses a threat to financial stability. Once again, a high degree of uncertainty in the short to medium-term leads to a sustainability rating of the FMPRTA of *unlikely*.[14]

Bank Performance

2.88 Bank contributions in consolidating and strengthening the regulatory agencies for pensions, securities and insurance had a positive impact on the financial system. The Bank also had a measurable impact on improving banking supervision practices. On the other hand, greater attention to the transition process associated with pension reform may have prevented the huge fiscal deficit arising from an overly generous and abuse-prone system. This should have involved greater attention to risk factors during the design phase and greater frequency of supervision. The Bank should have been more insistent with the government to avoid excessive costs during the transition. Rushed introduction of the Bonosol was a significant oversight. Greater attention was also needed in terms of analyzing alternative options for the financing of the pension reform. With respect to banking sector reforms, the Bank should have given greater consideration to the risks associated with the implementation of the new prudential norms in view of gravity of the banks' portfolio problems and have analyzed alternative options to support the banks during the adjustment process. Bank performance is rated satisfactory.

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[14] The Government states that it expects the achievements of the FMPRTA to be sustained. See Annex H.

Borrower Performance

2.89 Government expressed strong commitment to financial sector reforms, despite initial resistance to the reforms exhibited by incoming administrations. Financial system regulators were strongly committed to adopting new standards and supervisory practices. Once again political interference limited their implementation such as the case of regulatory forbearance in the banking system. Weakness in communicating the goals of the pension reform led to the subsequent serious oversight in terms of the government's acceptance of all pension liabilities as well as its response to popular pressures by raising pension benefits to lofty and financially unviable levels. *Borrower performance is downgraded to unsatisfactory*.[15]

3. Public Resource Management (PFMOII)

3.1 The sustainability of the NEP introduced in 1985 hinged on the credibility of the government's budget constraint which in turn depended on the ability of the state to reduce its size and improve its operational efficiency. Following the successful stabilization phase, the government's medium-term goal was to instill a new culture of fiscal responsibility aimed at increasing efficiency in the operations of the non-financial public sector through improvements in management and strengthening of the budget process.

3.2 The Bank supported the government's budget management process with the Public Financial Management Operation I (PFMOI), which was approved in 1987.[16] The objectives of that operation had been to (i) improve financial administration and control in the public sector; (ii) assist in the implementation of tax reform; and (iii) improve the national banking system by strengthening the Central Bank and restructuring the government-owned banks. Under the PFMOI, the Bank provided assistance in the drafting of the Law of Financial Administration and Control System (SAFCO), which was passed in July 1990, and provided the legal framework for an enhanced financial administration and control system. Despite its positive impact, the experience of the PFMOI raised several lessons which needed to be addressed more effectively in subsequent fiscal management projects such as the PFMOII. The key lessons were: (i) complex institution building requires long-term government commitment; (ii) staff turnover adversely affects the sustainability of reforms; (iii) due to high rate of technological obsolescence, financial resources must be made available to support periodic upgrading of the Information Technology (IT) systems.

3.3 Another important initiative, also supported by the PFMOI project, was the development of the so-called Emergency Program, a special unit within the Ministry of Finance organized to gather critical information on budget execution among the principal central and decentralized government entities in order to fill the budget information gap. Staff and consultants from this unit went to most of the public sector entities throughout the country and compiled reliable

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[15] The Government states that it considers Borrower Performance with regard to the FMPRTA to have been satisfactory. See Annex H.

[16] See Project Completion Report, Report Number 15159, December 11, 1995. This project was also referred to by the Spanish acronym the ILACO-I project, the implementation of the SAFCO Law (*Implantacion de la Ley de Adminstracion y Control Gubernamental*). Consequently the Spanish acronym for PFMOII is ILACO II.

budget figures on cash expenses and accounts payable, which were then used by the Ministry's budget office to generate the consolidated accounts of the public sector.

3.4 The Financial Administration and Control System (SAFCO) Law thus became the centerpiece of the government's strategy to upgrade financial administration, control, and accountability throughout the public sector. This was to be a key component in the government's strategy to enhance the efficiency of the state and thus to achieve a sustainable reduction in the public sector deficit. The SAFCO Law introduced eight systems: (i) a financial system; (ii) a financial control system; (iii) a planning system; (iv) a public investment system; and four administrative systems: (v) operations programming; (vi) public sector personnel management; (vii) procurement norms and procedures; and (viii) organizational norms and structures for public entities. The Bank's strategy was to continue to support the implementation of the Law through the PFMOII with the ultimate goal of assisting the government in more effectively managing its resources and thus attain a more stable fiscal and monetary policy environment.

Objectives and Design (PFMOII)

3.5 The objective of the PFMOII was to improve the efficiency, the effectiveness and the transparency of the Government's resource management systems. The specific objectives of the project were: (i) to institutionalize the budgeting process, strengthen the Treasury's cash management and public credit function; and develop a comprehensive accounting system; (ii) to provide the government through the Comptroller General's Office (CGR) with ex-post control functions vital to the enforcement of accountability for results in the public sector; (iii) to enhance the institutional capacity and skills both at the central and regional government levels to implement the new procedures; and (iv) to implement regulations consistent with the SAFCO Law pertaining to operations programming, public personnel management, and procurement norms and procedures.

3.6 The Project was comprised of three main components which addressed the following areas:[17]

Part A: Financial Management and Control

- Upgrade budgeting capacity at the public entity level (US$0.25 million).
- Develop and implement a system to integrate cash management and public credit functions in the National Treasury (TGN), and eliminate sub-treasuries within TGN (US$0.3 million).
- Develop an accounting system throughout the public sector and its implementation in the Central Government and in selected decentralized institutions and public sector enterprises (US$1.7 million).

[17] Initially there was a fourth component, institutional support, which was to be funded primarily through USAID, but was subsequently dropped as USAID withdrew its support in this area.

- Assist CGR (Comptroller General of the Republic) in improving the government auditing function through development of standards, manuals and regulations. Support the reorganization of CGR including the establishment of the Office of the Deputy Comptroller for Legal Affairs, development of CGR's capacity to carry out its responsibilities under the SAFCO Law, and purchase of additional computer equipment (US$3.1 million).

Part B: Standards and Regulations under the SAFCO Law

- Draft regulations for operations programming; personnel management; procurement of goods and services; treasury and public credit (US$0.3 million).

- Adapt existing regulations to the new SAFCO Law in the following areas: organization of the Ministry of Finance, budgeting, and integrated accounting (US$0.23 million).

- Disseminate new standards and implement new organizational structures (US$0.23 million).

Part C: Training in Financial Management, Administration and Control Systems

- Training and provision of courses to explain and disseminate the financial management, administration and control systems and procedures (US$0.45 million).

- Training of additional personnel needed in the Ministry of Finance and CGR (all local currency costs).

- Design of a masters degree program in accounting and management (US$0.59 million).

- Upgrading of training centers (US$0.36 million).

3.7 The new financial management system was to be applied initially to selected entities throughout the public sector: central administration, regional and local governments, and state enterprises. Initially greater priority was assigned to the development of the system within the central administration, which was comprised of the central government, the universities and the social security system. The central government included the Presidency, eighteen Ministries and a number of decentralized agencies such as the National Roads Service (SNC). The regional governments consisted of the prefectures and the regional development corporations. Local level government was comprised of the municipalities in urban areas and similar governing entities in rural areas. Finally, there were numerous state enterprises consisting of about 103 public institutions, such as the National Statistical Office (INE), the Emergency Social Fund, and 70 public – wholly owned and mixed enterprises such as YPFB, the telephone company and the electric power company.

Achievement of the PFMOII Objectives

3.8 ***Financial Management and Control***. With a change in government in 1993, the government's new development priorities which included the Capitalization program overshadowed those that had been established under this project. Support of the project became less cohesive and stalled. Owing to the loss of government support and to the complexity of the financial management program supported by this project, the Mid-Term review was very critical of implementation progress. The principal areas of concern were:

- Lack of involvement at senior government levels. There was no spokesperson for the project to communicate SAFCO's objectives.
- Project management focused on project administration as opposed to direction, integration of systems and technical advice.
- Insufficient flow of information across government agencies working on the project.
- Transfer of technical expertise to permanent government staff by consultants was minimal.

3.9 The Mid-Term review suggested that unless the above constraints were eliminated the project should be scrapped. In order to strengthen project implementation the Bank pushed for the appointment of a well qualified project director and put greater emphasis on improving project coordination. Following these changes progress was made on the achievement of objectives. For example, Procedures for budget formulation, cash management, and elimination of the payment function of regional sub-treasuries were revised and implemented.

3.10 The project supported increased automation, standardization and transparency of various systems for financial management. An Integrated Financial Management System (IFMS, or by the Spanish acronym SIIF) was developed and implemented mostly within the central government. On-line integration of the treasury, budgeting, and accounting functions occurred within the Ministry of Finance. Weak institutional capacity at the some of the central government agencies and in the regional and municipal governments prevented the dissemination of the system beyond the initial core of central government ministries. At the same time, the ineffective government decentralization initiatives that started in the early 1990s further compromised the implementation of a system-wide financial reporting system since the local governments were not prepared to handle their new financial management responsibilities.

3.11 The SIIF was partially completed under this project with very limited application beyond the central government. Work on improving the system continued under a subsequent project.[18] Part of the problem was the heterogeneity of systems being used at that time, some of which had been financed by other donors, their incompatibility and the resistance by government officials in adopting a new financial reporting system. The different financial management systems were in place mostly in the decentralized agencies. Known by their acronyms, these were SIGADE, SICOPRE, SIEF, SISIN, and others. The initial goal was to merge these systems into SIIF. After the PFMOII was closed, the government continued to work in this area and developed a new more versatile and web-based system named SIGMA which began to operate in August 2000.

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[18] Financial Decentralization and Accountability Project, July 1997.

Building on the architecture of the SIIF, SIGMA now combines budgetary, personnel management, procurement and contracting, asset management, treasury, public credit and accounting system. The system generates budgetary, economic, financial, accounting, and management information in an integrated context centralized at the Ministry of Finance.

3.12 Even with SIGMA, the application of a comprehensive financial management system has not yet progressed beyond the Central government, and additional work is still needed to fully implement the system at that level of government. The original PFMOII objective had been for the then SIIF system to have been implemented at the Central Administration and a number of selected decentralized institutions. La Paz adopted SIGMA in 2003 and implementation is ongoing in Santa Cruz and Cochabamba.[19] Even though achievement of this objective has been limited, the new system has the capability to upgrade budget management once it is implemented in the other areas of government. But it needs to be adapted to the IT characteristics of regional and decentralized institutions. Additional resources are also needed on a priority basis to develop a back up system to safeguard existing financial information. However, the SIGMA project has lost support of the government as the department has been without a full-time director since 2003.

3.13 ***CGR's audit and control capabilities.*** Supported by PFMOII, CGR enhanced its audit skills to include, besides the traditional financial audits of public entities, operational audits of public investments including the evaluation of public works. However, the pitfalls of an incomplete financial information system preclude CGR from performing an audit of the government budget since they are unable to consolidate the accounts for all public entities. The improvements in terms of internal and external audits have been gradual. Nevertheless, CGR still faces a number of challenges including: (i) inadequate assimilation by government entities of the new accounting and financial norms; (ii) audited agencies do not respond in a timely fashion; (iii) high staff turnover in government agencies, including the internal audit departments, which often results in a loss of the paper trail; and (iv) lack of resources at CGR has delayed the development of an effective audit program for the municipalities.

3.14 ***Implementation of norms and regulations of SAFCO Law***. This component dealt with additional regulations needed for implementation of the SAFCO Law. Norms were developed in the following areas: accounting, budgeting, treasury, debt management, operations programming, procurement, personnel, and organization. However, the development and approval of these norms was quite slow, contributing to further delays in the development of the financial management system. Most of the work associated with these norms was not completed until the final year of the project. Procurement policies are still not considered satisfactory and their development is further complicated by the varying demands on procurement policies imposed by different donors.

3.15 ***Training***. While the training center at CGR, known as CENCAP, performed a useful role in training public sector employees in the new norms created by the SAFCO Law as well as the new norms for budget planning and execution, insufficient training was offered on how to operate the new information systems such as the SIIF. Under the PFMOII less than 5 percent of

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[19] After the Bank stepped back from further support of the SIGMA, the IDB provided support to its implementation in the municipalities through the Municipal Financial Management Modernization Program (October 2001).

the potential trainees were reached. CENCAP provided training courses to 7,881 public sector participants.

Outcome of the PFMOII

3.16 Limited progress was made improving the effectiveness and the transparency of public sector financial management. The latest generation of financial management system, SIGMA, has been implemented at the central government level, in a few autonomous institutions, and two large municipalities, although efforts are being made to expand its coverage. SIGMA has reduced the number of procedural steps in processing budget items, has put controls on the use of discretionary spending, has notably enhanced automation of information management, and has established clear norms in those agencies of the central administration that are currently operating with the system, but these benefits have been limited to a core area within the central administration

3.17 While CGR's audit capacity has been strengthened, audit findings and recommendations are rarely implemented. The audit program focuses mostly on reviews of internal audit documents, since CGR still lacks sufficient staff to adequately cover the recommended frequency of on-site inspections, particularly in the case of the municipalities.

3.18 The new financial system has significantly reduced the amount of time to produce the consolidated accounts of the public sector; however, it needs to be applied uniformly and consistently across all public entities. The pitfalls of an incomplete financial information system have prevented CGR from performing an audit of the government. At the same time, the continuation of the Emergency Program demonstrates that the financial management system has not been able to fully replace in timeliness or reliability of the information produced by that unit.

3.19 An improvement in budget efficiency should be reflected in the following outcomes: reduced bureaucracy; less discretion in spending; standardized processing of expenditure request; and policies and procedures that establish clear controls over the management of the budget. However, the ICRG Quality of Bureaucracy index shows no change in Bolivia from 1998 through 2004. The IDA-IMF Expenditure Standards index actually deteriorated between 2001 and 2004. These indicators point to the prevalence of a more fundamental problem with the budget process which makes the financial management system inoperative.

Table 3.1: Public Sector Deficit

	1986-1991	1991-1997	1998-2001
Overall Deficit % of GDP	1.1	4.2	4.9

3.20 Perhaps the greatest challenge to engendering a culture of fiscal responsibility and effective management of resources is adherence to a hard budget constraint. As shown in the table, public sector deficits have been rising consistently since the time of PFMOII implementation. If the government makes a strong commitment to fiscal responsibility, to continuity of personnel, and to uncompromising enforcement of fiscal discipline, then achieving the objectives of this project would be much easier.

Evaluation of Progress toward Development Objectives (PFMOII)

Relevance, Efficacy, and Outcome

3.21 ***Relevance.*** The SAFCO Law provided the basic framework to enhance the management of public sector resources. The previous fragmented accounting system had made it easier to circumscribe accountability thus aggravating the problem of fiscal imbalances arising from discretionary spending by public sector officials with little accountability. On the other hand, the Bank was optimistic in terms of how quickly the government could achieve such a level of budgetary discipline and precision, particularly with the swings in the political climate and lack of buy-in in terms of a new culture of accountability.

3.22 The project's components were very relevant but became overly complex considering the institutional weaknesses and political resistance to accountability. The mid-term evaluation stated that the project was too complex and recommended then that it should be reformulated with a more modest set of objectives, followed by a PFMOIII.[20] The establishment of a high level Ministerial commission CONSAFCO to oversee implementation of the project was not an appropriate vehicle for this program in view of the lack of political commitment by members of the commission to the implementation of the SAFCO Law.

3.23 The principal risk identified by the Bank in the project appraisal report was the possible resistance by the Bolivian administrative structure and culture to the new way of managing public resources; as well as the possibility of: (i) high turn-over of staff; (ii) ad hoc changes in financial management procedures; and (iii) lack of consistency in the newly generated financial information system. The Bank's response to these risk factors was to add the condition that the government was to present an annual report to Congress on implementation of the SAFCO Law. Unfortunately this did not address the challenge of instilling a culture of accountability. One of the obstacles to the development of a new public resource management culture has been the chronic staff-turnover at all levels associated with periodic changes in government. Perhaps a less ambitious approach to public resource management would have been desirable. Consideration should have been given to a more centralized approach to budget management, building on the work already done within the Emergency Program, in effect to institutionalize rather than dismantle the unit. With respect to ad hoc procedures, which continue to plague the budget process, greater focus on the objective of accountability would have been more helpful.

3.24 The challenges encountered by the PFMOII are an indication that it did not address the enabling environment for implementation of public sector financial management operations. The TA operation might have been more successful if supported by an adjustment operation or component of an adjustment operation. At the same time, there have continued to be substantial delays in rolling out the system to the whole public sector and there has been no clear improvement in public sector financial management between 2001 and 2004, although there has been an improvement in some dimensions of the system such as standardized processing of expenditure requests and reduced bureaucracy, but mostly at the central government level. *For these reasons, the relevance of the Project is considered modest*.

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[20] Mid-Term Evaluation Bolivia: PFMOII SAFCO / ILACO, prepared by Consulting and Audit Canada, May 30, 1994.

3.25 **Efficacy.** The specific objectives of this project were mostly met, although the development of the comprehensive resource management system was not implemented as originally designed and the training of government personnel did not provide sufficient focus on the management of the new information systems. Turnover at the Ministerial level as well as with mid-level government staff further complicated the learning process. One of the key problems with the training of staff in the use of the new systems was that once the training was completed, in many cases a change in government or administration of that agency resulted in the exit of those individuals from their position without the transfer of know-how to their replacements. *Efficacy of the Project is also considered modest.*

3.26 ***Outcome.*** Based on the relevance and efficacy ratings and on the limited impact of project activities, *outcome of this Project is downgraded to moderately unsatisfactory.* The cumulative cost of SIIF including the subsequent enhancements and development of the latest version SIGMA has been estimated to be about US$40 million, a bit expensive for a system that has yet to be implemented throughout the public sector and where the Emergency Program continues to serve as the backbone of the consolidated system accounts.

Institutional Development Impact

3.27 The lack of political continuity as seen by a high turnover of government officials thus constrained the potential for institutional development. Other factors that diminished the institutional development impact include the complexity of the project and the lack of support or the resistance to changing a public financial management process that had allowed public officials discretion in managing their budgets. Institutional development involves a cultural change in the way public servants manage fiscal resources. In this regard, the design of the project fell short in terms of recognizing deep-seated views of government inflexibility, corruption, and inefficient civil service. Acquisition of state-of-the-art technology will not necessarily have an institutional development impact. Another option would have been to reinforce the institutional capacity in the Emergency Program unit with emphasis on a more centralized approach to financial management. Lack of resources prevented CGR from achieving a higher level of capacity; nevertheless, the institutional development impact of this agency was very positive. The institutional development impact of the PFMOII is thus considered *modest.*

Sustainability

3.28 Political problems since 2002, including the resignation of President Sanchez de Lozada in October 2003, has resulted in a high degree of uncertainty regarding the government's ability to implement more rigorous financial management and control procedures and to reduce the high rate of turnover of government personnel. Nevertheless, the follow up operation, the Financial Decentralization and Accountability project may have been more successful in internalizing some of the new financial management practices, particularly after the development of the financial management system SIGMA. Sustainability is thus rated *likely* although the high degree of political uncertainty, the limited acceptance of the changes introduced by the SAFCO Law outside the central administration, and the chronic turnover of government personnel remain as risk factors to the project's limited outcomes.

Bank Performance

3.29 Design of the program was too complex and scattered across numerous areas. Many of the design elements were too descriptive and lacked intermediate implementation targets and indicators. Greater attention to project risks should have resulted in a simpler project and perhaps a more centralized approach to financial management. During the first half of the project implementation was unsatisfactory. In response to the project's disappointing performance, the Bank changed Task Manager with the goal of getting the project back on track. The Bank subsequently focused on the key project objectives and was able to make progress towards these goals. *Bank performance is rated satisfactory*.

Borrower Performance

3.30 Strong commitment to the goals of this project was limited to a small group of high level technical staff at the central government, mainly the Ministry of Finance; beyond that group government commitment has not been evident, either because of resistance to change or lack of familiarity with the goals of the project. Overall, one of the failings of the implementation was the lack of support received from the Ministries. The financial management techniques introduced by this project called for a strong endorsement from the highest level at each participating agency in order to stimulate staff response. This type of commitment was not forthcoming. On the other hand, CGR made good progress in developing more effective auditing and control mechanisms. *Disappointing borrower performance in the crucial area of financial management leads to a rating of unsatisfactory*.[21]

4. Conclusions and Lessons

4.1 The Bank's private sector development strategy has yielded mixed results. Attempts to reach international best practices in a relatively short period of time from a weak foundation have encountered the following problems: lack of political support; continued government involvement; weak institutional capacity; and deeply entrenched governance issues, which are not conducive to an ambitious reform agenda. In the current highly fluid political environment, the Bank needs to narrow its focus to a few key areas. There were in each sector more options for privatization and/or private sector participation that could have been considered and that might have diffused some of the opposition to the reform. Greater appreciation of the political opposition to the Capitalization may have raised some questions about taking a less ambitious approach to the program such as more public participation earlier in the process or perhaps a phased approach. A broader public information campaign focusing on the 'why' capitalization was needed may have been more effective in diffusing opposition to reform. Of course we can only speculate as to whether the outcome might have been better. Nevertheless, there have been some "winners" in the process such as the telecommunications and the electric power sectors. In the case of Hydrocarbons, perhaps other approaches to capitalization could have been considered based on the experience of other energy-producing countries. The frail regulatory environment

[21] The Government states that it considers Borrower Performance with regard to PFMO II to have been satisfactory. See Annex H.

now needs to be safeguarded against further erosion through government interference. The Superintendencies of Telecommunications and Electric Power need to be reinforced in order to sustain the good outcome in those sectors.

4.2 The pension reforms should have been designed with more safeguards to prevent the huge fiscal burden. Moving forward, every effort should be made to avoid the financing of the cost of pension reforms by transferring resources from the private pension system.

4.3 With respect to financial sector reforms, greater attention should have been paid to the frail condition of the banking system prior to adopting new norms, such as those dealing with loan classifications, and to have provided a bail-out strategy early on accompanied by an exit strategy for non-viable institutions.

4.4 Support of public sector reforms has run into similar obstacles: weak institutional capacity, lack of commitment to accountability, opposition to implement changes, shifting political environment marked by high staff turnover, and limited enforcement capacity. Perhaps a more important obstacle to successful reforms was the lack of commitment to a hard budget constraint. Fiscal reforms were needed to create a favorable environment for a financial operations project. The Bank overlooked some of these factors by pursuing an optimistic and ambitious strategy with projects that taxed the government's implementation capacity.

4.5 The Bank's view of risks was perhaps somewhat optimistic. In some cases as in the CPAC, the risk mitigation strategy perhaps did not pay as much attention to mounting opposition to capitalization. While these are helpful steps, risk assessment needs to be addressed more proactively in terms of project design, with a direct relation between the level of risk and complexity of the project.

4.6 Lessons from the Bank's experience with the four projects:

- The political and social environments are fundamental factors behind the outcome of reforms. Even the best designs can fall prey to the political process. In the case of Capitalization, opposition to reform was underestimated. The design of pension reforms could have analyzed the risk factors more carefully and have incorporated a more intensive Bank support during the critical transition phase. The PFMOII was over-dimensioned and did not take into account the ingrained culture of discretionary spending for which a more directed approach to fiscal policy adjustment could have been considered.

- When institutional weaknesses are prevalent, the Bank needs to limit the scope of its operations, and be less ambitious in terms of project objectives. The Implementation Completion Report for the Financial Markets and Pension Reforms underscored that "Bolivia's pension reform went far beyond previous reform experiences and is being widely observed by other reforming countries." Sometimes achieving this distinction could backfire in terms of lack of institutional capacity to implement the reforms. A country with weak institutional capacity such as Bolivia may need to go at a slower pace or implement a less complicated program in terms of pension reforms.

- Communicating to stakeholders and educating them about the reasons for the reforms can be just as important as the passage of laws. Greater efforts could have been made in communicating the importance of reforms to all political groups as well as to the beneficiaries. SIRESE could have given greater priority to public relations particularly in educating consumers. Greater outreach to public service employees on the benefits of the new financial management system may have been an effective motivational factor. However, sometimes the benefits are evident as in the case of the telecommunications sector where cell phones became an affordable commodity to many Bolivians.

- Risk assessments of projects need to identify specific loan/project components subject to risk and provide contingent plans to guard against adverse impact. Financial sector operations involving new regulatory standards need to be accompanied by contingency plans in case the reforms result in systemic weakening, and in the design of the program attention needs to be paid to the financial and technical resources available to address those contingencies.

Annex A

Annex Table A: Bolivia Economic Indicators 1985-2003

Series Name	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*
GDP growth (annual %)	(1.7)	(2.6)	2.5	2.9	3.8	4.6	5.3	1.6
GDP per capita growth (annual %)	(3.6)	(4.5)	0.3	0.7	1.5	2.2	2.8	(0.8)
GNI per capita, PPP (current international $)	1,410	1,380	1,430	1,490	1,570	1,660	1,770	1,800
GNI per capita, Atlas method (current US$)	433	497	638	748	755	752	771	798
Agriculture, value added (% of GDP)	20.6	18.3	17.7	17.2	16.7	16.7	17.1	16.0
Industry, value added (% of GDP)	40.6	41.1	37.6	37.5	38.1	39.5	37.3	36.8
Services, etc., value added (% of GDP)	38.8	40.6	44.7	45.4	45.2	43.8	45.6	47.2
Exports of goods and services (% of GDP)	19.0	21.3	19.6	18.8	22.5	22.8	21.5	20.0
Imports of goods and services (% of GDP)	22.8	25.7	24.0	23.1	23.2	23.9	27.0	29.1
Current account balance (% of GDP)	(9.1)	(9.8)	(9.9)	(6.6)	(5.7)	(4.1)	(4.9)	(9.5)
Total debt service (% of exports of goods and services)	49.5	36.6	33.5	54.0	32.7	38.6	35.0	36.4
External debt (% of GNI)	167.2	152.8	142.7	113.1	92.5	92.4	79.6	77.6
Total reserves in months of imports	5.4	5.3	5.3	5.0	5.2	4.5	3.7	3.7
Current revenue, excluding grants (% of GDP)	9.8	13.2	13.0	12.5	12.8	13.7	14.8	15.2
Current expenditure, total (% of GDP)	..	12.0	12.1	11.6	13.0	13.9	14.0	16.0
Overall budget balance, excluding capital grants (% of GDP)	..	(0.1)	0.7	(0.7)	(1.9)	(2.1)	(1.1)	(3.8)
Gross domestic savings (% of GDP)	15.7	9.2	9.1	9.6	10.9	11.4	10.1	7.7
Inflation, consumer prices (annual %)	11,749.6	276.3	14.6	16.0	15.2	17.1	21.4	12.1
Literacy rate, adult total (% of people ages 15 and above)	73.5	74.4	75.3	76.3	77.2	78.1	78.9	79.7
Immunization, DPT (% of children ages 12-23 months)	33.0	42.0	35.0	28.0	52.0	41.0	43.0	45.0
Improved water source (% of population with access)	..	..	..	..	..	71.0	..	..
Improved sanitation facilities (% of population with access)	..	..	..	..	..	52.0	..	..
Life expectancy at birth, total (years)	55.6	..	56.8	..	..	58.3	..	59.3
Mortality rate, infant (per 1,000 live births)	..	..	..	..	..	87.0	..	..
School enrollment, preprimary (% gross)	38.8	..	..	..	..	31.9	33.5	35.3
School enrollment, primary (% gross)	95.3	..	..	..	..	94.7	97.1	99.3
School enrollment, secondary (% gross)	39.0	..	..	..	..	36.6	38.0	39.0
Population growth (annual %)	2.0	2.0	2.1	2.2	2.3	2.4	2.4	2.5
Population, total (millions)	5.9	6.0	6.1	6.3	6.4	6.6	6.7	6.9
Urban population (% of total)	50.5	51.5	52.5	53.5	54.6	55.6	56.3	57.1

Source: World Bank, Statistical Information Management and Analysis (SIMA), February 2, 2005.

Annex Table A: Bolivia Economic Indicators 1985-2003 (Continued)

Series Name	*1993*	*1994*	*1995*	*1996*	*1997*
GDP growth (annual %)	4.3	4.7	4.7	4.4	5.0
GDP per capita growth (annual %)	1.8	2.2	2.2	2.0	2.5
GNI per capita, PPP (current international $)	1,870	1,950	2,030	2,100	2,190
GNI per capita, Atlas method (current US$)	817	834	864	916	960
Agriculture, value added (% of GDP)	16.3	17.1	16.9	16.4	17.2
Industry, value added (% of GDP)	34.2	32.6	34.5	33.7	32.9
Services, etc., value added (% of GDP)	49.5	50.3	48.6	49.9	49.8
Exports of goods and services (% of GDP)	19.1	21.7	22.6	22.6	21.1
Imports of goods and services (% of GDP)	28.4	27.2	27.2	27.3	29.4
Current account balance (% of GDP)	(8.8)	(1.5)	(4.5)	(5.1)	(7.0)
Total debt service (% of exports of goods and services)	36.8	28.9	29.4	30.7	30.1
External debt (% of GNI)	77.9	84.2	81.2	71.8	67.7
Total reserves in months of imports	4.2	6.1	6.7	7.9	6.9
Current revenue, excluding grants (% of GDP)	16.0	16.4	16.2	17.2	17.0
Current expenditure, total (% of GDP)	18.6	18.2	17.1	18.0	18.5
Overall budget balance, excluding capital grants (% of GDP)	(5.2)	(4.7)	(3.3)	(4.2)	(3.7)
Gross domestic savings (% of GDP)	7.3	8.8	10.6	11.5	11.4
Inflation, consumer prices (annual %)	8.5	7.9	10.2	12.4	4.7
Literacy rate, adult total (% of people ages 15 and above)	80.5	81.3	82.1	82.8	83.4
Immunization, DPT (% of children ages 12-23 months)	52.0	58.0	64.0	61.0	58.0
Improved water source (% of population with access)	..	..	..	..	..
Improved sanitation facilities (% of population with access)	..	..	..	..	..
Life expectancy at birth, total (years)	..	..	60.6	..	61.5
Mortality rate, infant (per 1,000 live births)	..	..	73.0	..	..
School enrollment, preprimary (% gross)	36.9	38.5	40.0	41.3	36.3
School enrollment, primary (% gross)	101.2	102.9	104.0	105.0	105.8
School enrollment, secondary (% gross)	40.3	39.7	39.1	40.0	..
Population growth (annual %)	2.6	2.7	2.8	2.6	2.5
Population, total (millions)	7.1	7.3	7.5	7.7	7.9
Urban population (% of total)	57.9	58.6	59.4	59.9	60.4

Source: World Bank, Statistical Information Management and Analysis (SIMA), February 2, 2005.

Annex Table A: Bolivia Economic Indicators 1985-2003 (Conclusion)

Series Name	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
GDP growth (annual %)	5.0	0.4	2.3	1.5	2.8	2.5
GDP per capita growth (annual %)	2.6	(1.9)	(0.1)	(0.7)	0.6	(0.8)
GNI per capita, PPP (current international $)	2,270	2,270	2,320	2,350	2,390	2,450
GNI per capita, Atlas method (current US$)	992	976	982	942	902	889
Agriculture, value added (% of GDP)	14.7	15.1	14.9	15.2	14.6	14.6
Industry, value added (% of GDP)	32.6	31.0	33.8	32.5	33.3	33.2
Services, etc., value added (% of GDP)	52.7	53.9	51.4	52.2	52.1	52.2
Exports of goods and services (% of GDP)	19.7	16.9	17.9	19.7	21.9	21.5
Imports of goods and services (% of GDP)	32.6	27.3	27.4	25.5	26.9	24.4
Current account balance (% of GDP)	(7.8)	(5.9)	(5.3)	(3.4)	(4.4)	..
Total debt service (% of exports of goods and services)	28.0	27.1	37.1	31.1	27.7	..
External debt (% of GNI)	67.4	68.6	70.8	59.9	64.1	..
Total reserves in months of imports	5.9	6.4	5.8	5.9	4.6	5.7
Current revenue, excluding grants (% of GDP)	17.6	16.7	17.4	17.1	..	..
Current expenditure, total (% of GDP)	18.6	19.5	19.6	22.9	..	..
Overall budget balance, excluding capital grants (% of GDP)	(3.4)	(3.6)	(4.6)	(7.9)	..	..
Gross domestic savings (% of GDP)	10.7	8.4	8.8	8.4	9.8	8.0
Inflation, consumer prices (annual %)	7.7	2.2	4.6	1.6	0.9	3.3
Literacy rate, adult total (% of people ages 15 and above)	84.1	84.8	85.4	86.7	..	..
Immunization, DPT (% of children ages 12-23 months)	56.0	78.0	80.0	81.0	81.0	..
Improved water source (% of population with access)	..	..	83.0	..	..	..
Improved sanitation facilities (% of population with access)	..	..	70.0	..	..	..
Life expectancy at birth, total (years)	..	62.1	62.6	..	63.6	..
Mortality rate, infant (per 1,000 live births)	..	..	62.0	..	56.0	..
School enrollment, preprimary (% gross)	44.1	44.6	46.3	46.5	..	..
School enrollment, primary (% gross)	112.5	113.4	114.8	113.6	..	..
School enrollment, secondary (% gross)	72.6	76.9	80.0	84.4	..	..
Population growth (annual %)	2.4	2.3	2.1	2.2	2.2	1.9
Population, total (millions)	8.1	8.3	8.4	8.6	8.8	9.0
Urban population (% of total)	60.9	61.4	61.9	62.4	62.9	63.4

Source: World Bank, Statistical Information Management and Analysis (SIMA), February 2, 2005.

Capitalization Transactions

ENTERPRISE	BID DATE	TRANSFER DATE	BOOK VALUE ($m)	BID ($m)	PRE-MIUM
Corani (ENDE Generation)			33.0	58.8	78%
Guaracachi (ENDE Generation)	June 1995	July 1995	35.3	47.1	33%
Valle Hermoso (ENDE Generation)			30.8	33.9	10%
ENTEL (Telecommunications)	September 1995	November 1995	130.0	610.0	369%
LAB (Airline)	October 1995	December 1995	24.0	47.5	98%
ENFE Red Andina (Railways)	December 1995	March 1996	29.0	13.3	-54%
ENFE Red Oriental (Railways)			24.0	25.9	8%
Empresa Petrolera Andina (E & P)	December 1996	April 1997	130.0	264.8	104%
Empresa Petrolera Chaco (E & P)		April 1997	155.8	306.7	97%
Transportadora de Hidrocarburos		May 1997	97.2	263.5	171%
TOTAL			**689.1**	**1,671.5**	**143%**

Performance of Capitalized Companies

(Return on Equity, %)

	1997	1998	1999	2000	2001	2002	Period Average
Hydrocarbons Sector							
Andina SA	NA	NA	0.7	1.3	6.4	8.4	4.2
Chaco SA	NA	NA	-2.2	6.4	10.3	9.1	5.9
Transredes	NA	6.4	8.8	-4.1	2.6	7.0	4.2
Telecommunications:							
ENTEL	6.3	9.2	5.0	4.2	2.3	0.4	4.6
Electric Power							
Corani SA	12.9	7.6	9.9	8.5	5.4	5.1	8.2
Guaracachi SA	3.6	5.8	4.5	5.5	2.9	4.7	4.5
Valle Hermosos SA	2.7	5.0	4.9	3.7	-28.6	-2.2	-2.4
Transportation							
LAB SA	2.6	-5.8	0.5	-13.5	-195.4	NA	-42.3
Ferroviaria Andina SA	12.1	6.8	8.6	7.5	1.3	2.1	6.4
Ferroviaria Oriental SA	21.5	23.0	13.2	13.6	7.5	11.0	15.0
Tax contributions:							
% of Gov. Tax revenues	NA	5.64	5.08	5.53	5.14	4.82	5.2

Source: Delegado Presidencial de la Capitalización

Selected Indicators: Sectoral Infrastructure & Capitalization

	1995	1999	2000	2001	2002	2003	Average Growth
Hydrocarbons:							
Sales of natural gas (Bill. cf)							
Domestic market	31.435	37.778	33.199	28.863	31.358	36.98	3.3%
Exports	72.487	36.205	74.224	129.944	133.22	178.272	19.7%
Reserves (proven + probable):							
Petroleum (mill barr)	NA	241	692	892	929	957	41.2%
Natural Gas (tcf)	NA	9	32	47	52	55	57.2%
Telecommunications:							
Number of installed lines (000s):							
Fixed lines	NA	502.57	510.76	524.39	557.52	619.27	5.4%
Mobile service	NA	420.34	582.62	779.92	872.68	1401.46	35.1%
Index of Consumption (1990 = 100):							
Quantity	236.67	528.49	567.77	622.33	607.82	640.1	22.0%
Price	149.92	180.55	165.99	155.61	130.94	124.35	-3.7%
Electric Power:							
Index of Consumption (1990 = 100):							
Quantity	161.48	216.55	223.89	225.54	234.05	237.17	8.0%
Price	195.74	263.78	276.01	251.3	259.72	272.83	6.9%
Total Generation (Gwt/hr):	3019	3881	3884	3973	4188	4318	7.4%
Transportation:							
Index of Rail Transport (1990 = 100):							
Quantity	129.88	150.48	154.45	138.8	160.67	164.07	4.8%
Price	129.51	127.03	129.94	130.62	137.19	136.5	1.1%
Index of Total Air Transportation (1990=100):							
Passenger	125.55	176.8	173.8	150.97	140.05	170.8	6.3%
Cargo	120.37	82.23	76.29	68.07	72.94	90.73	-5.5%
Index of Total Road Transportation (1990=100):							
Passenger	131.99	199.37	175.04	170.65	192.96	245.15	13.2%
Cargo	134.24	188.68	203.85	211.38	250.62	216.36	10.0%
Water:							
Index of Consumption (1990 = 100):							
Quantity	117.95	132.87	135.47	133.93	137.1	138.35	3.2%
Price	178.85	353.29	384.73	383.04	404.18	433.9	19.4%

Source: INE

Pension System Indicators	**1999**	**2000**	**2001**	**2002**	**2003**
Number of Affiliates	527,365	633,152	675,889	760,959	
% of EAP	13.9	16.6	16.5	18.8	
Return on AFP Funds (%)					
Futuro de Bolivia SA	15.01	16.07	16.13	19.30	14.95
BBVA Prevision SA	15.59	15.17	15.80	18.64	14.22

Source: **SPVS**

Banking system Indicators	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Total Assets (mill US $s)	5,682	5,578	5,038	4,605	4,075	3,813
ROE (%)	9.2	8.4	(9.5)	(4.3)	0.7	2.8
Problem Loans / Total Loans	4.5	6.4	10.1	14.2	17.4	16.6
Provisions / Problem Loans	36.2	42.9	43.8	46.3	50.6	55.2
Problem Loans / Capital + Provisions	35.2	42.5	56.2	63.2	65.2	61.2
Liquidity (% of liabilities)	26.2	31.0	31.3	38.8	37.4	36.3

Source: SBEF

Value of Pension Funds: FCI (millions US$s)	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Investments in Local Market	98.0	325.4	575.4	811.0	908.1	1,111.0	1,445.0
Investments Overseas (1)	-	-	-	-	-	15.2	25.4
Total Value of FCI	98.0	325.4	575.4	811.0	908.1	1,126.2	1,470.4
% of GDP	0.5	1.5	3.2	4.9	5.3	5.9	6.3

(1) Overseas investments consist of time deposits placed abroad.

Annex B: Private Enterprise Development Project (Cr 2134–BO)

Project Conditionality

Schedule 2: Description of the Project

The objectives of the Project are: (i) to strengthen the private industrial sector operating in the Borrower's territory; (ii) to broaden the client base and range of financial instruments available to private enterprises form the banking system; (iii) to improve the effectiveness of public and private institutions providing promotion, training and development services to industrial enterprises; (iv) to minimize bureaucratic impediments to industrial development; (v) to improve managerial, accounting and marketing skills among manufacturers; and (vi) to promote entrepreneurial development.

The project consists of three parts:

Part A: Investment Sub-loans

Financing and carrying out of investment projects through investment sub-loans to investment enterprises within the industrial sector.

Terms and Conditions of Investment sub-loans

- each investment sub-loan shall not exceed: (i) 80 percent of the cost of the Investment Project; and (ii) US$120,000 equivalent per Investment Enterprise when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Credit.

- the repayment period shall not exceed (i) 8 years for Investment Sub-loans for an Investment project other than that financing exclusively incremental working capital; and (ii) 2 years for incremental working capital.

- Interest rate: at least the higher of (A) the Certificate of Deposit rate; or (B) a rate not lower than 7.5 points below the Commercial Rate; plus 2 percentage points to fund the TA Fund.

Part B: Technical Assistance Grants

Financing and carrying out of technical assistance projects through technical assistance grants to TA beneficiaries within the industrial sector.

Terms and Conditions of Technical assistance Grants

- Each TA Grant shall not exceed 80percent of the cost of the TA project and provided as a grant to the TA Beneficiary.
- The TA Grant shall have been approved by the Association.

- when presenting a TA Grant other than a free-limit TA Grant to the Association, the Central Bank shall furnish a description of the TA Beneficiary and an appraisal of the TA Project and such other information as the Association may request.

Part C: Central Bank Institutional Strengthening.

Strengthening the capacity of the Central Bank's department of Credit and Development in the operation of the technical assistance fund.

Annex C: Capitalization Program Adjustment Credit (Cr. 2761 – BO)

Summary of Loan conditionality

TRANSACTIONS	LEGAL FRAMEWORK	REGULATORY FRAMEWORK
FIRST TRANCHE (US$10 MILLION EQUIVALENT)		
Strategy for transfer of part-ownership in SOEs to Bolivians Strategies for capitalization of the following sectors: electricity, telecommunications and mining Agreement on principles of YPFB capitalization Hiring advisors for electricity and mining capitalizations	Approval of Capitalization Law, Electricity Law, Taxation Law Presentation to Congress of Telecommunications Law. Drafts of amendment to Mining Code and of Hydrocarbons Law Agreement on principles of pension reform	Approval of SIRESE Law, creating general regulatory framework
GENERAL CAPITALIZATION TRANCHE (US$10 MILLION EQUIVALENT)		
Invitation of bids for capitalization of ENTEL	Regulations on competitive bidding for capitalization Regulations on corporate tax Regulations to Electricity Law Approval of Telecommunications Law and regulations Approval of Mining Code Amendment	Regulations to SIRESE law Appointment of SIRESE General Superintendent Establishment and staffing of Telecommunications Superintendency Establishment and staffing of Electricity Superintendency
HYDROCARBONS TRANCHE (US$20 MILLION EQUIVALENT)		
Strategy for capitalization of YPFB Invitation of bids for capitalization of 30% of YPFB, excluding parts to be privatized	Approval of Hydrocarbons Law and regulations Regulations on hydrocarbons excise taxes	Establishment and staffing of regulatory and other agencies to award and supervise concessions and monitor compliance with regulations
FINANCIAL SECTOR TRANCHE (US$10 MILLION EQUIVALENT)		
	Approval of Pensions Law and regulations Approval of Securities Law and regulations Approval of Insurance Law and regulations	Establishment and staffing of pensions regulatory authority Strengthening of Superintendency of Securities Strengthening of Superintendency of Insurance

Annex D: Financial Markets & Pension Reform TA (Cr. 2789 – BO)

Project Conditionality

Schedule 2: Description of the Project

The objective of the project is to strengthen the institutional framework and capacity of MOC, CNV and SBEF to (a) operate and regulate pension funds and securities markets; and (b) regulate and supervise banking and financial activities in Bolivia.

Part A: Pensions Reform

1. Design of an organizational structure for Superintendency of Pensions.
2. Drafting of regulations for the Pension law.
3. Design of a computerized system to enable SOP to carry out its functions and responsibilities.
4. Acquisition and utilization of goods required to implement the computerized system referred to item number 3 above.
5. Drafting of norms and regulations to enable INASEP to carry out its control functions with respect to Sectoral Pension Funds and FOPEBA.
6. Redefinition of the structure of benefits provided by FOPEBA.
7. Drafting of norms to enable the carrying out of a merger between FOPEBA and the Sectoral Pension Funds.
8. Design of bidding procedures for the selection of AFPs in order that such AFPs manage the Deferred Share Distribution Accounts and the Contributory Accounts, including the design of norms and procedures to manage such accounts.
9. Design and carrying out of a campaign in Bolivia to inform the population with respect to the changes in the legislation resulting from the enactment of the Pension Law.
10. Design of procedures for SOP in order to enable SOP to carry out its functions in accordance with the organizational structure referred to in item number1 above, including, the design of guidelines to implement the system referred to in item number 3 above.
11. Provision of training to the personnel of SOP with respect to the functions and responsibilities of SOP.
12. Design of a new organizational structure for INASEP, including the design of procedures to enable INASEP to carry out its functions.
13. Provision of technical assistance to FOPEBA in the carrying out of its merger with the Sectoral Pension Funds.
14. Design of a computerized data base for FOPEBA to enable FOPEBA to carry out its functions
15. Provision of training to the personnel of INASEP with respect to: (a) the functions and responsibilities of INASEP; and (b) the new organizational structure referred to in Part A.12 above.
16. Strengthening of the institutional capacity of FOPEBA through the provision of technical assistance and training required.
17. Design of a system to determine the current pension liabilities of FOPEBA and the Sectoral Pension Funds.

18. Carrying out of a review of Bolivia’s workers compensation system, including the development of proposals to improve such system.

Part B: Capitalization Program

1. Design and implementation of mechanisms to administer the shares of the six enterprises to be capitalized in accordance with the Capitalization Law and which will be deposited with the Trustee until such shares have been assigned to the AFPs.
2. Design of rules and procedures to implement a cash distribution system for the benefits resulting from the administration of the Deferred Share Distribution Accounts, including the design and distribution of a manual which would set forth such rules and procedures.
3. Acquisition and utilization of the equipment for RUN to carry out its functions.
4. Carrying out of a study on the possibility of creating an entity that would coordinate the activities of the entities that regulate the financial system in Bolivia

Part C: Securities Regulation

1. Provision of technical assistance to CNV to assist CNV in the drafting and issuance of the required CNV’s circulars and ruling in accordance with the legal framework to be established pursuant to paragraph 3 (c) of Schedule 1.
2. Carrying out of an institutional restructuring of CNV
3. Design of procedures to enable CNV to carry out its functions.
4. Design and implementation of an information system in order to enable CNV to carry out its monitoring functions, including the acquisition and utilization of the necessary equipment and the provision of training required therefore.
5. Provision of training to CNV’s personnel with respect to the functions and responsibilities of CNV.
6. Design of a program to develop and promote the securities market in Bolivia.

Part D: Institutional Strengthening of SBEF

1. Provision of training to SBEF’s personnel with respect to the functions and responsibilities of SBEF.
2. Carrying out of a renewal of the regulations to the Banking Law in order to propose changes to such regulations, such changes to be based on the Pension Law and the legal framework to be established pursuant to paragraph 3(.c) and (d) of Schedule 1 to this agreement.
3. Carrying out of a review and modification, if needed, of the policies and procedures applicable to: (a) financial institutions which are in critical financial situation; and (b) non-banking institutions.
4. Carrying out of a review of SBEF’s internal organization and policies and procedures and modification, if needed, of such internal organization, policies and procedures.
5. Design of a plan to improve SBEF’s institutional capacity.
6. Strengthening of SBEF’s information system to enable SBEF to carry out its functions.

Annex E: Public Financial Management Operation II (Cr. 2279 – BO)

Project Conditionality

Schedule 2

The objective of the Project is to improve the efficiency, effectiveness and transparency of the Borrower's resource management system through:

i. institutionalization of program-based budgeting, cash, debt and other resources management, and auditing procedures in Eligible Public Entities and Decentralized Institutions;

ii. enhancement of the institutional capacity to implement such procedures, both at the Borrower's central and local government levels through the definition of standards and procedures, in particular, the public disclosure, publicity, accountability and obligations of public servants, that would enforce provisions of the SAFCO Law;

iii. strengthening the capacity of the CGR and provision of ex-post control functions in the Borrower's government, necessary for accountability for results in the public sector; and

iv. development of skilled manpower to sustain such procedures.

Part A: Financial Management and Control

1. Transfer of the responsibility for budget formulation from MF to Eligible Public Entities (EPE), introduction of evaluation procedures for EPE and improved ability of MF's budget sub-secretariats and Regional Development Corporations (RDC) to formulate budgets and evaluate their execution.

   Deadlines for implementing of budgeting process as follows:

   ___ EPE by December 31, 1992;
   ___ RDC and Decentralized Institutions by December 31, 1993

2. For the TGN perform the following tasks:

   ___ Develop and implement a system to integrate cash management and public credit functions in the TGN and define institutional responsibilities through regulations and procedures (by December 31, 1992).

   ___ Eliminate sub-treasuries (provide timetable to Bank by December 31, 1991) within the TGN and institute payment through the Banking Network (by June 30, 1992).

   ___ Introduce and review treasury and public credit regulations and commissions charged for public services.

3. The following sub-tasks:

   a. Develop financial management systems for 14 selected EPE (by June 30, 1992);

   b. Dissemination of such systems for approximately 116 Decentralized Institutions (DI) (by June 30, 1994);

   c. Adaptation of Accounting Standards for DI to approximately 58 decentralized EPE other than the 14 included in (a) (by December 31, 1994);

   d. Adaptation of Accounting Guidelines for Public Enterprises to 50 EPE that cannot finance the development of their own accounting systems (by December 31, 1994);

   e. Introduction of uniform accounting and classification methods, and development & implementation of simple budgeting, treasury and accounting systems for about 90 small local EPE which receive budgetary allocations (by December 31, 1994);

   f. Creation and implementation of a nationwide public sector financial data base (by December 31, 1994);

4. Provision of assistance to CGR to improve government auditing as set out below (by June 30, 1996):

   a. Development of standards, guidelines, manuals and regulations relating to auditing of EPE;

   b. Reporting requirements for public funds and for internal organization within CGR;

   c. Reorganization of CGR, including establishment of Technical Programming Office, Legal Affairs Office and Office of the Deputy Comptroller, to improve its effectiveness;

   d. Development of CGR's capacity to carry out its responsibilities and duties under the SAFCO Law, including preparation of regulations.

5. Acquisition and utilization of computer hardware and software and materials to carry out Part A of the Project.

Part B: Standards and Regulations under the SAFCO Law

Technical assistance for the review of legislative requirements and preparation of draft regulations and standard procedures in areas of:

a. public personnel management, including selection criteria and compensation packages for TGN officials.

b. procurement and management of goods and services.

c. inter-institutional organization.

d. treasury and public credit standards for EPE.

Part C: Training in Financial Management, Administration and Control Systems

a. Training and provision of courses to explain and disseminate the Borrower's financial management, administration and control systems and procedures.

b. Training of additional personnel needed in MF and CGR.

c. Design of a masters degree program in accounting and management.

d. Establishment of at least four training classrooms in two regions of the country.

e. Improvement of the classrooms of the La Paz training center, together with a specialized library, a day care center, and appropriate materials and equipment.

Annex F: Basic Data Sheet

PRIVATE ENTERPRISE DEVELOPMENT CREDIT (CR. 2134)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Original commitment	16.1	18.9	117
Total cancellation	-	-	-
Total project cost	-	18.9	-
Cancellation	-	-	-

Cumulative Estimated and Actual Disbursements

	FY92	*FY93*	*FY94*	*FY95*	*FY96*	*FY97*	*FY98*
Appraisal Estimate (US$M)	4.20	8.20	12.20	16.10	16.10	16.10	16.10
Actual (US$M)	1.50	2.80	3.64	4.59	6.41	12.80	17.44
Actual as a % of Estimate	35%	34%	29%	28%	39%	79%	108%
Date of Final Disbursement							March 1998

Project Dates

	Original	*Actual*
Identification		March 30, 1988
Preparation I		February 1988
Preparation II	June 1988	September 1988
Preparation III		March 1989
Appraisal	October 1988	June 1989
Post-appraisal		December 1989
Negotiations		April 1990
Board Presentation		May 17, 1990
Signing		August 22, 1990
Effectiveness	na	June 14, 1991
Midterm review	Not planned	December 1995
Project Completion	December 31, 1994	December 31, 1997
Loan Closing	June 30, 1995	June 30, 1998

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	No. of Staff weeks	*US$('000)*
Preappraisal	73.8	40.8
Appraisal/Negotiation	25.7	122.0
Supervision	137.4	355.6
ICR	5.5	14.4
Total	236.9	524

* CS = Consultant Services

Mission Data

	Date (month/year)	No. of persons	Staff days in field	Specializations represented	Performance rating	
					Implemen-tation Status	Develop-ment Objectives
Identification/ Preparation	3/88	2	10		-	-
	9/88	2	12			
	3/89	3	6			
Appraisal	6/89	2	12		-	-
	9/89	1	4			
	12/89	2	4			
Supervision	9/91	1	18	Financial Analyst	1	1
	3/92	1	13		1	2
	1/93	2	19		2	2
	6/93	1	11	Water Specialist	2	2
	10/94	3		Water Engineer	S	S
	6/95	1	10	Lawyer	S	S
	11/95	6	9	Economist	S	S
	3/96	8	15		S	S
	6/96	2	10		S	S
	10/96	5	10	Microenterpr. NGOs	S	S
	7/97	2	10		HS	S
Completion	6/98	2	12	Economist	-	-

CAPITALIZATION PROGRAM ADJUSTMENT CREDIT (CR. 2761)

Key Project DATA *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Original commitment	50	65.3	130.6
Co-financing (by Inter-American Development Bank)	-	82	-
Total cancellation	-	-	-
Total project cost	-	147.3	-
Cancellation	-	-	-

Cumulative Estimated and Actual Disbursements

	FY96	*FY97*	*FY98*	*FY99*	*FY00*	*FY01*
Appraisal Estimate (US$M)	9.98	27.83	66.45	66.45	66.45	66.45
Actual (US$M)	10.08	26.68	50.62	63.06	63.06	63.06
Actual as a % of Estimate	101%	95%	76%	94%	94%	94%
Date of Final Disbursement						December 2000

Project Dates

	Original	*Actual*
Identification		Based on 1992 ESW
Preparation	February 1993	February 1993
Preparation	June 1993	June 1993
Pre-appraisal	September 1993	September 1993
Appraisal	December 1993	December 1993
Post-appraisal	March 1994	October 1994
Negotiations	December 1994	February-March 1995
Letters of Development Policy	February 1995	March 31, 1995
Board Presentation	April 1995	July 6, 1995
Signing	May 1995	July 7, 1995
Effectiveness	July 5, 1995	December 1, 1995
First Tranche Release	October 1995	December 1995
General Capitalization Tranche Release	December 1995	April 1997
Hydrocarbons Tranche Release	June 1996	July 1997
Financial Sector Tranche Release	December 1996	August 1998
Credit Closing	July 31, 1997	September 30, 1998

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	No. of Staff weeks	*US$ ('000)*
Preappraisal	138	458
Appraisal/Negotiation	114	373
Supervision	47	187
ICR	5	14
Total	303	1032

Mission Data

	Date (month/year)	No. of persons	Staff days in field	Specializations represented	Performance rating		Types of Problems
					Implementation Status	Development Objectives	
Identification/ Preparation	7/92	3	8	P	-	-	-
	10/92	3	6	R, P			
	2/93	13	14	L, R, P			
	6/93	8	14	H, A, P, R			
	9/93	12	7	L, R, P			
Appraisal	12/93	12	16	L, R, P	-	-	-
	10/94	7	11	P, R, H			
	3/95	4	4	P, R, H, A			
Supervision	9/95	6	10	P, R, H	S	S	Change in Government, Approval of Legislation
	3/96	5	8	L, R, P	S	S	
	12/96	4	6	A, R	S	S	
	10/97	1	6	PSD	S	S	
	3/98	1	6	Finance	S	S	
Completion	7/98	2	10	PSD	-	-	-

Notes: Privatization (P), Regulation (R), Legal (L), Hydrocarbons (H), and Aviation (A)

FINANCIAL MARKETS AND PENSION REFORM TA (CR. 2789)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Original commitment	8.4	7.6	90
Total cancellation	-	-	-
Total project cost	-	7.6	-
Cancellation	-	-	-

Cumulative Estimated and Actual Disbursements

	FY96	*FY97*	*FY98*	*FY99*
Appraisal Estimate (US$M)	4.88	8.44	9.0	9.0
Actual (US$M)	0.0	4.70	6.50	7.62
Actual as a % of Estimate	0%	55%	72%	84%
Date of Final Disbursement				June 1999

Project Dates

	Original	*Actual*
Concept Review		February 1994
Pre-appraisal	March 1994	May 1994
Decision Meeting		September 1994
Appraisal	October 1994	October 1994
Negotiations	October 1995	October 1995
Board Presentation	November 1995	November 1995
Signing	March 1996	March 28, 1996
Effectiveness	January 1996	January 14, 1997
Last Mission		December 12, 1998
Next Mission		March 29, 1999
Closing Date	June 30, 1998	December 31, 1998
Project Completion	December, 1998	December 13, 1998

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	No. of Staff weeks	***US$ ('000)***
Preappraisal	31	96
Appraisal/Negotiations	41	137
Supervision	54	147
ICR	0	3
Total	126	383

Mission Data

	Date (month/year)	*No. of persons*	*Staff days in field*	*Specializations represented*	*Performance rating*		**Types of Problems**
					Implementation Status	Development Objectives	
Identification/ Preparation	4/94	2	5	F, B	-	-	-
	5/94	5	10	F, P, CM, B, FA			
	10/94	4	10	F, P, I, B			
Appraisal	2/95	4	12	F, P, I, B	-	-	-
	6/95	1	4	P			
	11/95	4	5	F, P, CM, B			
Supervision	07/96	2	14	FA, B	S	S	Changes in the Government
	06/97	2	14	F, P	S	S	
	06/98	2	14	F, B	U	S	
	07/98	2	14	F, P	S	S	
					S	S	
Completion	12/98	2	5	P, FA	-	-	Closed as Scheduled

Notes: Financial Specialist (F), Banking Specialist (B), Pension Specialist (P), Capital Markets Specialist (CM), Financial Analyst (FA), Insurance Specialist (I)

PUBLIC FINANCIAL MANAGEMENT CREDIT II (CR. 2279)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Original commitment	11.3	10.8	96
Total cancellation	-	-	-
Total project cost	-	10.8	-
Cancellation	-	-	-

Cumulative Estimated and Actual Disbursements

	FY92	*FY93*	*FY94*	*FY95*	*FY96*	*FY97*	*FY98*	*FY99*
Appraisal Estimate (US$M)	2.90	5.60	7.65	9.40	10.68	11.30	11.30	11.30
Actual (US$M)	1.53	2.57	4.38	5.79	7.04	9.27	10.97	10.99
Actual as a % of Estimate	52%	45%	57%	61%	65%	82%	97%	97%
Date of Final Disbursement							September 1998	

Project Dates

	Original	*Actual*
Identification (Executive Project Summary)	June 1990	May 1990
Pre-appraisal	September 1990	October 1990
Appraisal	January 1991	February 1991
Negotiations	April 1991	May 1991
Board Presentation	June 1991	June 1991
Signing	September 1991	September 1991
Effectiveness	na	December 1991
Midterm Review	na	May 1994
Project Completion	June 1996	June 1997
Loan Closing	December 1996	December 1997

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	No. of Staff weeks	*US$ ('000)*
Preappraisal	36.0	70.4
Appraisal/Negotiations	34.4	62
Supervision	86.1	242.9
ICR	6.0	15
Total	162.5	390.3

Mission Data

	Date (month/year)	No. of persons	Staff days in field	Specializations represented	Performance rating		Types of Problems
					Implementation Status	Development Objectives	
Identification/ Preparation	May/90	3	5	TM, F, AC, AU			n.a.
	Nov/90	5	10	TM, F, AC, AU, IS			n.a.
	Feb/91						
Appraisal	n.a.						n.a.
	n.a.						
Supervision	Feb/92	3	10	TM, PF	1	1	1a, 1b
	Nov/92	3	7	TM, PF	1	1	2a, 2b, 2c
	Oct/93	2	15	TM, F	2	2	3a, 3b, 3c, 3d
	Jun/94	3	11	TM, F, TA	U	S	4
	Jan/95	3	9	TM, AC, AU	U	S	5a, 5b
	Oct/95	3	5	TM, AC, AU	U	S	6a, 6b, 6c, 6d
	May/96			TM, F	S	S	7a, 7b
	Oct/96	4	10	TM, F, AC, AU, SC	S	S	8a, 8b
	Jun/97	3	10	TM, F, L	S	S	9
Completion	Dec/97	2	9	TM, F	S	S	10

Notes: Task Management (TM), Financial (F), Accountant (AC), Audit (AU), Information Systems (IS), Public Finance (PF), Tax Administration (TA), Systems and Controls (SC), Legal (L)

1a. Lack of understanding by many entities on the full-scope and usefulness of program-based budgeting; 1b. Delay by MOF in deciding on elimination of sub-treasuries for political factors.

2a. Lack of national consensus on SAFCO Law; 2b. Difficulty in identifying and hiring higher-level local and international consultants; 2iii. Inadequate coordination of activities in MOF, and between MOF and CGR.

3a. Delay in project activities due to reduction in counter-part funding and change in authorities; 3b. Delay in some components due to lack of definition of objectives and political support; 3c. Techinical Director's failure to perform technical functions, progress evaluation and coordination of components; 3iv. Authorities hiring outside of established norms.

4. Delay in presenting norms for procurement of goods and services due to changes in government.

5a. Budgeting objectives not achieved; 5b. Elimination of sub-treasuries unlikely due to: (a) banking network cannot reach certain parts of interior; and (b) sub-secretaries may be assigned new functions.

6a. Lack of coordination among sub-secretariats within MOF; 6b. Lack of technical leadership at Project Unit level; 6c. Lack of political commitment to objectives of the project; 6d. Implementation of decentralized budget accounting system (SICOPRE) not very successful.

7a. Revenue sources of some central agencies not yet fully captured on IFMS; 7b. Resistance from some central agencies in having a common accounting system.

8a. Treasury Public Credit Division not reached a decision on type of debt monitoring systems; 8b. Management of debt information between MOF and Central Bank.

9. Budget payment request voucher via on-line not implemented due to non-acceptance of electronic transactions by public sector authority.

10. Fourteen out of 20 central government agencies not connected to IFMS due to resistance from some managers in MOF.

Annex G: List of People Met

World Bank Staff

de la Torre, Augusto, Senior Regional financial Sector Advisor, LCRCE, FMPRTA

Goldmark, Susan, Sector Manager, LCSFE, PEDP and CPAC

Gottret, Pablo, Senior Economist, Health, PEDP and CPAC

Leyton, Alberto, Sr. Public Sector Specialist, PFMOII

Machicado, Carmen, Operations Officer, LCSPS, PFMOII

Myers, Ronald, Sector Manager, LCSPS, PFMOII

Pollner, John, PFMOII

Shukla, Jyoti, Program Manager, PPIAF, PEDP

Von Gersdroff, Hermann A., Sector Manager ECSHD, FMPRTA

Bolivian Stakeholders

Alborta, Patricia, Vice Minister of Finance, PFMOII

Aponte, Guillermo, Superintendency of Pensions, Securities and Insurance, FMPRTA

Aranguren, Jose Luis, President, and Alberto Suazo, General Manager, NAFIBO, PEDP

Bedoya, Pablo, General Manager (CEO), Banco Nacional, FMPRTA

Besse, Claude, Former Superintendent General of SIRESE, CPAC

Calvo, Fernando, Superintendent of Banking, FMPRTA

Costa, Mario, General Accounting Office, PFMOII

Comptroller General's Office (PFMOII):

> Jorge Trevino (Comptroller General)
> Javier Diez de Medina (Sub-Comptroller General)
> Silvia Alba (External Audits)
> Susy Rana (Internal Audits)

Fernandez, Franco, President, Banco Union, FMPRTA

Fuente, Hugo de la, Supertintendent of Hydrocarbons, SIRESE, CPAC

Irusta, Osvaldo, Superintendent, Superintendency of Electricity, SIRESE, CPAC

Justiniano, Guillermo, Former Minister of the Presidency, CPAC and FMPRTA

Kieffer, Raul, President Hydrocarbons Industry Association, CPAC

Kuhn, Antoine, General Manager, Aguas del Illimani, CPAC

Larrazabal, Eric, Superintendent of Transportation, SIRESE, CPAC

Leon, Juan, Manager Corporate Communications, ENTEL, CPAC

Leon, Julio Vargas, General Manager, Futuro de Bolivia, AFP (Pension Fund manager), FMPRTA

Molina, German, Manager of SIGMA, PFMOII

Morales, Juan Antonio, Governor, Central Bank, PEDP and FMPRTA

Muller, Herbert, Ex-Minister of Finance, CPAC and FMPRTA

Nogales, Xavier, Former Governor of the Central Bank, PEDP and FMPRTA

Perez, Jose Luis, Vice Minister of Budget and Accounting, PFMOII

Pereira, Rene Sergio, SAT, by phone, PEDP

Prado Guachalla, Fernando, Executive Director, ASOFIN (Micro Finance Association), PEDP

Romero, Carlos, Vice Minister of Electricity, CPAC
Silva, Jose Luis, General Manager, and Ricardo Mertens, CFO, Banco de Santa Cruz, FMPRTA

Trigo, Jacques, Former Minister of Finance, CPAC and FMPRTA

Wiggs, Brett, President Transredes, CPAC

Zaratti, Francisco, Presidential Delegate for Capitalization, CPAC

Annex H: Comments from the Government
(Original in Spanish)

REPÚBLICA DE BOLIVIA
MINISTERIO DE HACIENDA

La Paz, 17 NOV 2005
M.H. 1751 VIPFE/DGFE/NEG-04067/2005

BANCO MUNDIAL
18 NOV. 2005
RECIBIDO

Señor
R. Kyle Peters
Director del Departamento de Evaluación de Operaciones
BANCO MUNDIAL
Washington, D.C.
USA

Ref.: PROJECT PERFORMANCE ASSESSMENT REPORT (PPAR)

De mi consideración:

Con relación a la nota, mediante la cual nos hace conocer el Borrador del Informe de referencia, en el cual el departamento a su cargo evalúa los convenios 2134-BO, 2761-BO, 2789-BO y 2279-BO, me permito manifestar que si bien este documento constituye una herramienta de lecciones aprendidas, el Gobierno de Bolivia no comparte las calificaciones otorgadas como prestatario en tres de las cuatro, en las cuales estaríamos como insatisfactorios.

Al respecto, como es de su conocimiento, en las cuatro operaciones sujetas de estudio, se desembolsó casi el total de los recursos, mismo que no se podría haber realizado de no cumplirse con los indicadores de avance.

Por otra parte, si bien Bolivia ha cambiado sus prioridades desde el momento en el que se ejecutaron estos proyectos, la mayoría de las reformas que se apoyaron en ese momento aún tienen continuidad y sostenibilidad como el Sistema Integrado de Gestión y Modernización Administrativa (SIGMA), el desarrollo de la capacidad institucional en las reformas del sistema financiero y de seguridad social y pensiones.

Por lo antes mencionado, reiteramos nuestra disconformidad con la calificación que se nos otorga.

Con este motivo, saludo a usted con la mayor atención.

Waldo M. Gutiérrez Iriarte
MINISTRO DE HACIENDA

Unofficial Translation in English

Republic of Bolivia
Ministry of Finance

La Paz, November 17, 2005
M.H. 1754 VIPFE/DGFE/NEG-04067/2005

Stamped Received at the World Bank Office in La Paz, November 18, 2005

Mr. R. Kyle Peters
Manager, Operations Evaluation Department
World Bank
Washington, D.C.
USA

Ref.: Project Performance Assessment Report (PPAR)

With reference to the note through which you bring to our attention the draft reference report, in which the department under your management evaluates agreements 2134-BO, 2761-BO, 2789-BO and 2279-BO, I would like to state that although this document constitutes a tool for conveying lessons learned, the government of Bolivia does not agree with the ratings conferred upon the borrower in three of the four instances, in which we would be unsatisfactory.

As is of your knowledge, almost the totality of the resources was disbursed in the four operations subject to the study, something that could not take place if the indicators of advance were not attained.

On the other hand, although Bolivian priorities have changed since the moment when the projects were executed, most of the reforms that were then supported still preserve their continuity and sustainability, such as the Integrated Financial Management System (SIGMA), and the development of the institutional capacity in the reforms of the financial system and the social security and pension systems.

For the reasons aforementioned, we reiterate our disagreement with the rating we received.

With this purpose, I extend to you my cordial greetings.

(Signed)
Waldo M. Gutierrez Iriarte
Minister of Finance