

DONORS PROJECT MEMORANDUM

COUNTRY: BOLIVIA

EXECUTIVE SUMMARY

PROJECT NAME: Capitalization of Public Enterprises

PROJECT NUMBER: TC 93-09-22-1

EXECUTING AGENCY: Secretaría de Capitalización

PROJECT AMOUNT: US\$ 2,336,000.00

MIF FACILITY : Technical Cooperation (Facility I)

OBJECTIVE: To support the first phase (January to December, 1994) of the Government of Bolivia's program aimed at allowing private sector investment in the capital structure of six major companies currently wholly owned by the State.

DESCRIPTION: The project contemplates the utilization of MIF resources for contracting advisory services necessary for the execution of the following four sub-programs: (a) Institutional Strengthening of "Secretaría Nacional de Capitalización e Inversión", responsible for implementation and coordination of the restructuring/capitalization/privatization program; (b) Establishment of an appropriate legal framework for private sector investment in electricity, hydrocarbons and telecommunications sectors; (c) Preparation of the three major companies, ENDE, YPFB and ENTEL, for private sector investment; (d) Design of a capitalization/privatization strategy for ENFE, ENAF and LAB, and for the companies controlled by the Regional Development Corporations.

MODALITY: Grant

PROJECT TEAM: (Project Team Leader) Hector Avila (DPL/SLP), Raul Baginski (OPS/OD1), Nancy Jesurun-Clements (DPL/PD2), Fred Aarons (LEG/OR1), Jose A. Navia (FBO) and Marcelo G. Antinori (PRE/MIF).

I. COUNTRY ELIGIBILITY

- 1.1 Bolivia was declared eligible for all modalities of financing under the MIF by the Donors Committee on October 6, 1993.

II. PROJECT

Background

- 2.1 Since 1985, the Government of Bolivia has adopted and maintained a stabilization and adjustment program to arrest hyperinflation, eliminate the fiscal deficit and remove major structural weaknesses in the economy. At the same time, the Government initiated a comprehensive liberalization process of markets for goods, credit, foreign exchange, and labor services, and introduced measures to improve the efficiency of public sector administration. As a direct result of the program the fiscal deficit to GDP ratio was reduced to 4.9 percent in 1992 and the inflation rate that had reached 11,000 percent per year in 1985, declined to 12 percent in 1992. Gross Domestic Product grew at the rate of 2.6 percent in 1990, 5.3 percent in 1991 and 2.7 percent in 1992 and the GDP per capita growth rate was 2.8 percent in 1991 and 0.3 in 1992. However the level of unemployment and quasi-employment is still high (estimated at 18 percent in 1992) and gross investment remains below 14 percent of GDP. The Government and the IMF have recently extended the Enhanced Structural Adjustment Facility (ESAF). The new targets for 1994 would include reducing the fiscal deficit (currently estimated at 6.5% of GDP) by one-half from last year's levels.
- 2.2 Bolivia needs to achieve a sustained GDP growth rate which will require an annual public and private investment above 16% of GDP, and private investment to grow at a rate of 20% per year. Therefore, promotion of private investment is a main priority for the country. Consistent with this priority the campaign platform of the new Government, "El Plan de Todos", emphasized as the first of the seven pillars on which the plan is based "a substantial increase in resources targeted for investment" which includes: (i) capitalization/privatization of public enterprises, (ii) encouragement for private investment and (iii) increasing public sector savings. Additionally, expanded investment flows need to be matched by commensurate growth of saving instruments and institutions, such as pension and mutual funds, and security markets.
- 2.3 **Capitalization of public enterprises** - The Government is developing a comprehensive initiative to associate private capital with public capital in state enterprises through its Capitalization/privatization Program. The Program includes six public enterprises: YPFB, ENTEL, ENDE, ENAF,

ENFE and LAB ^{1/}. The Government's approach to raise private capital for these enterprises includes, as a first step, the transformation of these companies into mixed public-private entities (Sociedades Anónimas Mixtas) where the private partners will be the current employees receiving a capital participation of 1%. The next phase will consist of an offering of up to 50% of shares (capitalization) to be subscribed by private investors, and it may involve the transformation of the "Sociedades Anonimas Mixtas" into regular corporations (Sociedades Anonimas). This new capital injection shall be applied to new investment, rehabilitation, and restructuring programs. As a last phase, the Government intends to distribute its remaining shares (49 percent) among all Bolivian citizens --21 years or older--.

- 2.4 The Capitalization/Privatization of the Public Enterprise Program is based on a privatization technique already used by other countries for specific cases of state-owned enterprises badly in need of capital and restructuring. Under such an approach the Government receives no proceeds from the share issue, but the equity contribution and the new management brought in by private investors may enable the implementation of modernization and investment plans, increasing the value of the remaining shares which, according to the proposed program, would be distributed among Bolivian citizens.
- 2.5 Immediately after inauguration in August 1993, the new administration has began working actively on setting conditions for implementation of the program by creating the "Secretaría Nacional de Capitalización e Inversión" as well as preparing a draft Capitalization Law to be submitted to Congress to obtain the authority to put the program in place. In addition to the capitalization scheme outlined above the Government is proposing in the draft of the Capitalization/privatization Law that: (a) the financial, labor, and environmental liabilities of the companies may be assumed by the Treasury prior to the capitalization/privatization; (b) measures will be adopted to establish a competitive environment in those sectors with capitalized/privatized companies; and (c) the Minister of the Economy, the Secretary of Capitalization and the sectorial Secretaries will be in charge of the capitalization/privatization strategy for all six companies.
- 2.6 Although a great deal of discussions among government officials and expert advisers have taken place leading to the drafting of the Capitalization Law, a number of issues have not been defined in an effort

^{1/} Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), Empresa Nacional de Telecomunicaciones (ENTEL), Empresa Nacional de Energía Eléctrica (ENDE), Empresa Nacional de Ferrocarriles (ENFE), Empresa Nacional de Fundición (ENAF) and Lloyd Aéreo Boliviano (LAB)

to keep the draft legislation short and general in order to facilitate early legislative passage and to allow flexibility to accommodate the different situations relevant to each of the six major enterprises. There are still four major issues that remain undefined and that would have to be clarified and resolved by the Bolivian Government during the first phase of the program (January to December, 1994) in order to enable the capitalization/ privatization of the companies to take place in the second phase (1995). The four major issues are:

- (a) **Percentage of shares to be offered to private investors** - According to the Government's proposal, a maximum of 50 percent of shares will be offered to private investors, however this percentage may not be sufficient to attract enough private investors interest in some companies. In such cases the Government will need to assess alternative approaches to attract private investment into these companies.
- (b) **Method to be used to attract private investors** - The Government is proposing Capitalization as the main method to be followed but the Government's strategy to attract private sector participation in public enterprises would not necessarily be limited to Capitalization. The Government, as part of the design of the strategy for each of the companies, is assessing other alternatives such as direct selling of shares or assets to private investors and establishment of concessions or leasing agreements, which may be more appropriate for some cases and could generate proceeds, contributing to fiscal relief;
- (c) **Method to be used in the distribution of shares among Bolivian citizens** - The Government's proposal calls for free distribution of company shares among all Bolivian citizens - 21 years or older - but the mechanisms for this distribution have not yet been clearly defined. One of the alternatives under consideration for the distribution of the remaining shares is the utilization of these shares to fund a new system of pension funds. This alternative would require the design and implementation of a program to establish a superintendency of pension funds as well as the strengthening of the existing mechanism to regulate the capital markets.
- (d) **Alternatives to deal with the financial, labor, and environmental liabilities** - According to the draft legislation of the Capitalization/privatization Law the Government may assume the financial, labor and environmental liabilities in cases where needed, but studies and projections will have to be prepared to support the Government in defining amounts and methods to be used to assume these liabilities.

Program Context

- 2.7 The Government is in a position to begin soon implementation of the Capitalization Program because a substantial amount of technical work regarding the conditions of the six enterprises involved as well as proposals to allow various degrees of private investment association with state capital have been prepared and discussed over the last three years with support from IDB and IBRD.
- 2.8 The execution of the full Capitalization/ privatization Program will extend beyond 1994 and will be carried out within the context of a Private Sector Development and Capitalization Operation under preparation by the IBRD (IDA). This World Bank operation will be supported by several technical assistance operations financed with a blend of loans and grants. The Government of Bolivia is requesting MIF support through the Technical Cooperation Facility, for the first phase of the Capitalization/ Privatization Program which is expected to be executed from January to December, 1994.

Program Objectives

- 2.9 The objectives during the first phase of the program are:
- (a) the institutional strengthening of the "Secretaría", which will be responsible for the design and implementation of the program;
 - (b) transforming the six enterprises into "Sociedades Anónimas Mixtas";
 - (c) developing and then implementing the legal modifications required to establish an appropriate legal framework for private sector investment in the six sectors, in particular electricity, hydrocarbons and telecommunications;
 - (d) completion of the design of the capitalization/privatization strategy for each of the six companies, in particular ENDE, YPFB and ENTEL;
 - (e) preparation of ENDE, YPFB and ENTEL for capitalization/privatization;
 - (f) designing a privatization strategy for companies controlled by the Regional Development Corporations.
- 2.10 The project will support the Government in the assessment of options to deal with the issues addressed in paragraph 2.6. and based on the findings, the Government will decided on a strategy for each of the companies and a plan of action for the second phase. The implementation of the second phase activities for each one of the companies could start as soon as the respective capitalization/ privatization plan is designed.

In particular, the program will support the Government in finding alternative methods to attract private sector investment for these companies, such as direct sale and/or establishment of concessions or leasing agreements.

2.11 The second phase of the program, to be financed either by an IBRD Technical Cooperation Loan expected to be disbursed by October 1994 and/or by another project proposal to be later submitted to the MIF, would comprise:

- (a) establishing the required regulatory agencies for electricity, hydrocarbons and telecommunications;
- (b) implementing the capitalization/privatization of the six companies, and;
- (c) implementing the privatization of companies controlled by the Regional Development Corporations.

Activities

2.12 The program was designed to include all activities required to ensure the appropriate implementation and long term sustainability of the program. The program comprises four sub-programs (a table summarizing the program, including activities to be executed and expected achievements for each sub-program is presented as Annex I) :

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|-----------------|--|
| Sub-Program I | Institutional Strengthening of "Secretaría Nacional de Capitalización" |
| Sub-Program II | Establishment of an appropriate legal framework for private sector investment in the sectors covered by the capitalization/privatization program |
| Sub-Program III | Enterprise preparation for capitalization/privatization (ENDE, YPFB and ENTEL) |
| Sub-Program IV | Design of a capitalization/privatization strategy for ENFE, ENAF and LAB, and for the companies controlled by the Regional Development Corporations. |

A. Sub-program I - Institutional Strengthening of "Secretaría Nacional de Capitalización"

Frame of reference

- 2.13 On September 17, 1993, Congress approved Law No. 1,494 enacting a major organizational restructuring of the Executive Branch. Supreme Decree No. 23,660 issued on October 12, 1993, created the "Secretaría Nacional de Capitalización e Inversión" (SENACI) within the "Ministerio de Hacienda y Desarrollo Económico" (MINHDE). In accordance with the new legislation, the scope and authority of MINHDE have been greatly expanded encompassing nine national secretariats consisting of: energy, transport, telecommunications, mining, industry, commerce, tourism, agriculture, and capitalization. In this manner, MINHDE has authority for policy formulation and responsibility for overseeing all major public enterprises through the respective national secretariats. The organizational chart of SENACI is attached as Annex II.
- 2.14 SENACI has a broad normative and monitoring mandate being responsible for executing and supervising policies for the promotion of domestic and foreign private investment and for conducting the capitalization/privatization process of public enterprises. SENACI is headed by a national secretary, who is in charge of:
- (a) coordinating all de-regulation and regulatory activities that various government agencies will be undertaking in order to stimulate private investment;
 - (b) ensuring coherence of policies and structural reform program proposals developed by sectorial secretaries within MINHDE;
 - (c) developing the legal framework, institutional restructuring, and regulatory mechanisms required for implementing the capitalization/privatization program of public enterprises and regional corporations.
 - (d) contracting advisory services to assist in designing strategies for allowing private capital involvement; preparation of legal documents for transforming public enterprises into mixed ownership companies or publicly traded corporations; developing prospectus, bidding documents and model contracts for public-private capital associations; and helping to develop and establish regulatory and supervisory agencies in key economic sectors;
 - (e) undertaking efforts in Bolivia and abroad to attract potential investors, and conduct negotiations leading to increased capitalization/privatization of public enterprises;

(f) designing proposals and developing mechanisms aimed at spreading share ownership among Bolivian citizens.

- 2.15 SENACI's capabilities to discharge these broad responsibilities are very limited at this moment as it was recently created. The Government budget request for the forthcoming fiscal year will include additional resources for SENACI but since the requirements for the bulk of the capitalization/privatization program are expected to decrease substantially after one or two years it will not be advisable to establish a large unit. Thus, the Government plans to execute most of the capitalization/privatization program with the help of consultants and fixed-term appointed personnel, and under the guidance of task forces for each one of the six companies. Task forces will be composed of high ranking officials from the enterprises, the respective sectorial national secretary, and SENACI itself. Attached as Annex III is the organizational chart of the task forces.

Specific objective

- 2.16 The specific objective of this sub-program is the strengthening of SENACI's capabilities to develop and execute the capitalization/privatization program for six major public enterprises as described above. The measurable targets of the sub-program are:

- (a) Within three months from funds availability, SENACI should have completed the preparation of detailed terms of reference based on the generic terms of reference already agreed upon with the Bank for all the individual consultants in the program (Annex IV includes the terms of reference that have already been prepared). By this time, SENACI should have completed the selecting and hiring of personnel.
- (b) Within six months from funds availability, SENACI should have completed the design of the strategy for capitalization/privatization of ENDE, YPFB and ENTEL and concluded the hiring of international firms to do the auditing of these enterprises.
- (c) Within twelve months from funds availability, SENACI should present to MINHDE proposals for capitalization/privatization strategies of ENFE, ENAF, and LAB and for the companies controlled by the Regional Development Corporations.

Sub-program activities

- 2.17 In order to achieve the proposed objective, MIF resources would be used for:

- (a) contracting the services of one senior economist, one senior legal adviser, three local legal experts, and three experts on privatization strategies of public enterprises;
- (b) financial resources to promote exchange of experiences with former or current officials of other Latin American and Caribbean countries that had a close involvement with the implementation of public enterprise privatization; and
- (c) hiring of advisory services to design and implement an information and education campaign to build public support for the capitalization/privatization program.
- (d) contracting the services of consultants to assess the social impact of the capitalization/ privatization program and to propose recommendations aimed at minimizing the social costs of the program.
- (e) contracting the services of consultant to support SENACI administering the program during the first six months of program implementation

B. Sub-program II - Establishment of an appropriate legal framework for private sector investment on economic sectors covered by the capitalization/privatization program

Frame of Reference

- 2.18 The Government of Bolivia's program for creating an appropriate legal framework for private sector investment in electricity, hydrocarbons and telecommunications has been supported by the preparation of a World Bank's "Private Sector Development and Capitalization Adjustment Operation" scheduled to be submitted to the Board of that institution by December 1993. IDB, through the Multilateral Investment Fund, will coordinate with the World Bank and Bolivian authorities in order to join in financing the next steps of this sub-program.
- 2.19 **Electricity** - The Electricity sector has provided generally satisfactory service. It has however, suffered from an inadequate legal and institutional framework. To improve service and efficiency to support the country's economic growth, the Government has proposed a complete restructuring of the sector. This includes: approval of a new Electricity Law; adoption of regulations to monitor generation, transmission and distribution companies; provision of consistent policies for setting tariffs; establishment of the required regulatory agency; and capitalization of ENDE and four other regional distribution systems. The draft of the New Electricity Law is in the final stage of preparation and is expected to be submitted to the National Congress by the end of 1993.

- 2.20 **Hydrocarbons** - The Hydrocarbons sector suffers greatly from inefficiencies and insufficient financial resources, however, it is still responsible for providing over fifty percent of total Government revenues. The Government has hence set several objectives in its "Plan de Todos" aimed at improving the sector's efficiency. These include encouraging private sector investment by, inter alia, eliminating YPFB's monopoly and deregulating prices. The Government is preparing a legislation to improve the competitiveness of the sector and to establish the Exploration and Production Agency to oversee the market. This legislation is expected to be submitted to Congress by the end of 1993.
- 2.21 **Telecommunications** - Bolivia rates low among Latin American countries in the provision of telecommunications services with telephone density of less than three percent of the total population. Accessible telephone service is inhibited by high subscription fees reaching over US\$1500. To improve the telecommunications sector, the Government proposes to transfer the entire sector to private investors through the capitalization program. The Government is preparing legislation to foster fair and open competition, primarily through the use of private sector concessionaires which is expected to be submitted to Congress by the end of 1993.
- 2.22 Once the respective legislation are approved, the next step will be: (a) the preparation of the required regulations for the three sectors; (b) the conclusion of the design of the institutional and regulatory framework; (c) establishment of the required regulatory agencies and institutional strengthening of Government agencies related with program implementation; (d) institutional restructuring of the companies, and; (e) capitalization/privatization of the restructured companies. The MIF financing will focus on the activities that need to be implemented in 1994, activities (a) and (b), and the following steps will be financed either by the IBRD Technical Cooperation Loan or by another project proposal to be later submitted to the MIF.

Specific objectives

- 2.23 To support the Government in: the completion of the draft legislation for electricity, hydrocarbons and telecommunications; the preparation of the required regulations; and the completion of the design of the institutional framework for the three sectors. The measurable targets of the sub-program are:
- (a) Within six months of law enactment, SENACI will have completed the preparation of the regulations for the three sectors;

- (b) Within ten months of law enactment, SENACI will have completed the design of the institutional and regulatory framework for the three sectors.

Sub-program activities

- 2.24 In order to achieve the proposed objectives, MIF resources would be used to finance:

- (a) contracting the services of legal advisers and sector experts to complete the draft legislation authorizing and regulating private sector participation in the electricity, hydrocarbons and telecommunications sectors;
- (b) contracting the services of short term consultants to conclude the design of the appropriate institutional and regulatory framework for the three sectors.

C. Sub-program III - Enterprise preparation for capitalization/privatization (ENDE, YPFB, ENTEL)

Frame of Reference

- 2.25 Once the legal, institutional and regulatory frameworks for private sector investment in electricity, hydrocarbons and telecommunications are in place, the Government will implement the capitalization/privatization of the companies. However, some of the preparatory activities might be initiated immediately. The preparation of the companies for capitalization/privatization will vary from company to company but will generally consist of the following steps: (a) legal transformation of the companies to "Sociedades Anónimas Mixtas", (b) updating financial statements and preparation of cash-flow projections, (c) discussion of alternatives to deal with the financial, labor and environmental liabilities; (d) conclusion of the strategy design, (e) institutional restructuring which in some cases will require the merging or splitting of companies, (f) preparation of valuation, (g) identification of potential investors, (h) preparation of bidding documents. The proposed MIF financing will focus on steps (a), (b), and (c). The remaining steps would be financed either through the IBRD Technical Cooperation Loan or by another project proposal to be later submitted to the MIF.
- 2.26 Experience indicates that the implementation of the preparatory work required for Capitalization/privatization could negatively affect the management of the companies leading to its financial and economic deterioration. To avoid this problem, the managers of each company to be capitalized will prepare an Action Plan for the management of the company during the preparatory phase, including operational targets, investment

program, labor policy and estimates of amount and source of funds required to balance the cash-flow. These Action Plans will be discussed and agreed upon with SENACI and the respective sectoral Secretaries to be used to guide the managers during the preparatory period.

Specific objectives

- 2.27 To support the Government in: legal restructuring of the companies; updating of the financial statements; and in the analysis of alternatives to deal with the financial, labor and environmental liabilities. The measurable targets of the sub-program are:
- (a) Within three months from funds availability, SENACI, the sectoral Secretaries and the managers of the companies to be capitalized will have agreed on the Action Plan of management to be followed during the preparation of these companies for capitalization/privatization;
 - (b) Within four months from funds availability, SENACI will have completed the legal restructuring of the six companies into "Sociedades Anonimas Mixtas";
 - (c) Within eight months from funds availability, SENACI will have completed the updating of the financial statements and cash flow projections of the three companies;
 - (d) Within ten months from funds availability, SENACI will have completed the recommendations regarding alternative methods to deal with the liabilities of the three companies.

Sub-program activities

- 2.28 In order to achieve the proposed objective MIF resources would be used to finance :
- (a) contracting the services of legal advisers to transform the enterprises to "Sociedades Anonimas Mixtas";
 - (b) contracting the services of independent auditors to update the financial statements of the three enterprises and to prepare cash flow projections based on scenarios to be developed in agreement with SENACI;
 - (c) contracting the services of legal and financial advisers to asses alternatives to deal with the financial liabilities of these enterprises;

D. Sub-program IV - Design of a capitalization/privatization strategy for ENFE, ENAF and LAB, and for the companies controlled by the Regional Development Corporations

Frame of Reference

- 2.29 The Government of Bolivia decided to focus its efforts on the capitalization/privatization of the three major companies, ENDE, YPFB and ENTEL, (sub-program II and III above), there are, however, other companies covered by the Capitalization Program; ENFE (railways), ENAF and Karachipampa (smelting), LAB (airline), AASANA (airport authority); as well as companies controlled by the Regional Development Corporations which are targeted for privatization. For these remaining companies a strategy has not yet been defined and studies are required to provide the Government with alternatives; therefore, the preparatory work will be limited to the legal restructuring of these companies into "Sociedades Anonimas Mixtas".
- 2.30 **ENAF (smelting)** - Falling world mineral prices and the inefficient operations of COMIBOL have been the two contributors to the plight of the mining sector. The Government aims to turn the sector around by closing all unprofitable operations and encouraging private sector investment in potentially profitable outfits. It is important to note that the Bolivian Constitution does not allow the transference of assets outside COMIBOL, hence private sector involvement in COMIBOL operations will be limited to joint ventures and leasing agreements. ENAF and Karachipampa, however, are not subject to the Constitutional restraint and will be included in the capitalization scheme.
- 2.31 **ENFE** - The dominant force in the railways sector is the Empresa Nacional de Ferrocarriles (ENFE). It comprises several Andean lines in Western Bolivia and Eastern lines originating from Santa Cruz. It operates over 3,500 Km of railway lines and has over 5700 employees. The system faces financial troubles for profits of the Eastern network are offset by losses in the Western lines. The Government, in its Plan de Todos, has set capitalization as an objective for the sector where it will encourage private sector investment in the profitable lines. The Government is considering allowing private sector ownership of the unprofitable routes through compensation by Public Service Obligation payments.
- 2.32 **LAB and AASANA** - The restructuring program for the aviation sector has as a basic premise the promotion of private sector participation and the limitation of government intervention except when essential. The program is divided into two parts; the first dealing with international and domestic airlines and the second dealing with airport facilities. Bolivia's international airline, LAB, will be capitalized while all subsidies to the domestic carriers will be halted. The Airport

Authority, AASANA will be restructured so as to be responsible mainly for air traffic control, while a new and smaller agency will assume responsibilities for services regulation by implementing a system of private airport operations.

- 2.33 **Regional Development Corporations (RDC)** - Before 1992, the RDC used to control 68 small and medium size companies. They have since been separated into two groups of approximately 30 companies each to ensure faster and more thorough analysis and sale. The Privatization Law for these companies was passed in May 1992, and about 30 companies have since been privatized or disposed of with a total value of US\$ 12 million. It has been the Government's policy to use the funds from the sales for socially-oriented programs. To date US\$5 million have been disbursed for use in over 100 social programs. The Government plans to continue with this policy and aims to privatize or liquidate the remaining public enterprises by the end of 1995.

Specific Objective

- 2.34 To support the Government in the design of a strategy for the capitalization or privatization of this group of companies. The measurable targets of the sub-program are:
- (a) Within nine months from funds availability, SENACI, will have completed the design of a strategy for ENAF, ENFE, LAB and AASANA;
 - (b) Within ten months from funds availability, SENACI, will have completed the design of a strategy for the companies controlled by the Regional Development Corporations.

Sub-program activities

- 2.35 In order to achieve the proposed objective MIF resources would be used to finance :
- (a) contracting the services of consultants to design a strategy for attracting private investors to ENFE, ENAF and LAB;
 - (b) contracting the services of consultants to design a strategy for attracting private investors to the companies controlled by the Regional Development Corporations.

Cost and Financing

- 2.36 The projected costs for each one of the components which will be financed by the MIF grant are presented below.

PROJECT BUDGET (US\$)

I. Institutional Strengthening of "Secretaría

a.	Short Term Consultants (Senior economist, senior legal adviser, local legal advisers and experts on privatization strategy) Foreign consultants: 12 man/months x US\$12,000 Local Consultants: 40 man/months x US\$ 4,000	304,000
b.	Financial resources for the exchange of experiences	40,000
c.	Public awareness campaign	60,000
d.	Consultants for assessing social impact	48,000
e.	Consultant to administer the program	24,000
	Sub Program I - Total	476,000

II. Legal framework for private sector investment

a.	Senior Legal Advisers Foreign Consultants: 12 man/months x US\$12,000 Local Consultants: 12 man/months x US\$ 8,000	192,000
b.	Short Term Consultants Foreign Consultants: 9 man/months x US\$12,000 Local Consultants: 24 man/month x US\$ 8,000	204,000
	Sub-Program II - Total	396,000

III. Enterprise preparation for capitalization

a.	Local Legal Advisers Local Consultants: 24 man/month x US\$4,000	96,000
b.	Independent Auditors Three firms	900,000
c.	Financial Advisers Foreign Consultant: 3 man/month x US\$12,000 Local Consultant: 12 man/month x US\$ 4,000	84,000
	Sub-Program III - Total	1,080,000

PROJECT BUDGET (US\$)

IV. Strategy design

a.	Short Term Consultants	384,000
	Foreign Consultants: 24 man/month x US\$12,000	
	Local Consultants: 24 man/month x US\$ 4,000	
Sub-Program IV - Total		384,000

TOTAL FOR THE PROGRAM	2,336,000
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Organization and Execution

- 2.37 The Executing agency - The program will be executed by the Secretaria Nacional de Capitalización e Inversión (SENACI), which is headed by a Secretary reporting directly to the Minister of MINHDE. Technical guidance, priority actions, and work plans will be set and supervised by six Task Forces, one for each enterprise participating in the program. Each Task Force will include three high ranking officials, one from SENACI, one from the sectorial Secretariat, and one from the participating enterprise. The selection and appointment of the task force members will be made by the Minister of MINHDE upon recommendation of SENACI.
- 2.38 The task forces have already been operating informally during the preparation of the program and have assisted SENACI with drafting consultants' terms of reference. The task forces will participate in the preparation of the work plan for the execution of the program that SENACI will present to the Bank and in the selection of consultants. Once hired, consultants will work in close cooperation with the task forces and will report to them as often as needed. In order to minimize the administrative work for SENACI, it is proposed that SENACI hires the services of a consultant to help with identification and contractual arrangements for consultants and firms during the first six months of program implementation.
- 2.39 Disbursement - The technical cooperation will be disbursed upon evidence that:
- (a) an appropriate legislation granting authority to the Secretaria Nacional de Capitalización e Inversión in order to carry out restructuring/ privatization/capitalization program.
 - (b) a work plan for program execution and an implementation schedule of activities have been agreed to with the Bank.

- 2.40 The technical operation will be disbursed according with Bank procedures, and as a significant amount is expected to be disbursed in the short term (Annex V presents a tentative schedule for disbursement) the revolving fund to be established should comprise resources equivalent to 25% of the project.
- 2.41 Because the timely implementation of the capitalization/privatization program depends on passage of legislation and completion of negotiations with consultants and firms outside the control of the Government, it is not possible to anticipate with accuracy the budgetary requirements for program implementation. For this reason, MIF support would include a mechanism to enable flexibility in the allocation of MIF resources. At the end of each six-month period, the program will be reviewed in coordination with IDB and the World Bank, and a report will be prepared by SENACI proposing any necessary modification/s in the sub- programs and recommending to the MIF Office the corresponding reallocation of resources among the items of the budget.

Monitoring

- 2.42 The monitoring of the program will require the preparation of two reports by SENACI. The first after six months of program implementation and the final report at the end of the twelve months period. The reports should include a description of the progress made in implementing each of the sub-programs, a summary of the work done by each of the consultants hired by the program, and any modification in the work plan that might be required. The final report will also include recommendations for the Government on the long term management of the capitalization/privatization program.

Viability and risks

- 2.43 This program was designed to include all the activities required to ensure the achievement of the proposed objective, and adequate flexibility has been built into program execution to ensure its successful implementation. Furthermore, the Government has shown determination and commitment to carry out the program with the creation of SENACI and the development in a short period of time of the privatization law.
- 2.44 The accomplishment of the project objective will depend on factors not fully under the Government's control such as passage by Congress of several pieces of legislation that may be required for some of the sectors involved, eventual opposition by organized labor against private capital participation in public enterprises, as well as conditions of the market and private investor response to the program.

- 2.45 To minimize the risk of excessive legislative delays due to strong resistance from political and labor groups, the Government will use resources provided by the program to organize a campaign directed to educate and inform the public and build support for the capitalization/privatization program. Furthermore, great efforts are being made by the Government in the design of the program to ensure a positive response from the private sector.

III. COMPLIANCE WITH PROJECT ELIGIBILITY CRITERIA

General Criteria for Project Eligibility

- 3.1 The reform program under implementation by the Government of Bolivia and particularly the Capitalization/privatization Program, are fully consistent with the general objectives of the MIF, i.e. to promote private-sector-led growth. Consistent with MIF eligibility criteria, this project will consider alternative methods to attract private sector investment for these companies, such as direct sale and/or establishment of concessions or leasing agreements. The experience to be obtained with the Bolivian Capitalization/privatization Program may facilitate, and stimulate further privatization programs throughout Latin American.

Facility Criteria for Project Eligibility

- 3.2 The proposal is also fully consistent with the criteria for grant financing under the Technical Cooperation Facility, Article 3, Section 2 of the MIF Agreement, which establishes, among other criteria, that grants shall be provided to Governments to finance advisory services required to implement plans which are part of a comprehensive reform program aimed at improving the environment for investment, as well as to finance advice on the design and implementation of privatization programs.

IV. CONSISTENCY WITH THE BANK'S COUNTRY PROGRAM

- 4.1 The Capitalization/privatization Program is fully consistent with the Bank's strategy aimed at supporting private sector development and at increasing efficiency in public sector management. The expected improvement in services provided by the capitalized companies and the planned distribution of shares to Bolivian citizens are consistent with the Bank's strategy of improving the population's social and economic conditions.

V. AVAILABILITY OF MIF RESOURCES

Funding Modality

- 5.1 The project is expected to be financed through a grant. Bolivia was declared eligible for all modalities of financing under the MIF by the Donors Committee on October 6, 1993.

Allocation of MIF Resources

- 5.2 No restrictions apply for the allocation of MIF resources to Bolivia or to this specific project.

VI. EVALUATION

- 6.1 The results of this technical cooperation will be evaluated by the project team and included in the Project Completion Report on the basis of the degree to which the specific objectives of this project have been met. However, as the project aims at supporting the first phase of the Capitalization/privatization Program, a comprehensive ex-post evaluation of the achievement of the project long term objectives is recommended after the conclusion of the second phase of the program.

ANNEXES

Annex I	Project Summary
Annex II	Organizational Chart of SENACI (available upon request)
Annex III	Organizational Chart of the special task forces (available upon request)
Annex IV	Terms of Reference (available upon request)
Annex V	Tentative schedule for disbursement

PROGRAM SUMMARY

ANNEX I

MIF - FACILITY I - BOLIVIA: CAPITALIZATION/PRIVATIZATION PROGRAM (FIRST PHASE)		
Project General Objective		
Promote private sector investment in economic sectors currently restricted to public investment.		
Project Specific Objective		
Support the Government in the first phase of the capitalization program (twelve months)		
Sub-programs	Activities to be executed in each sub-program	Expected Achievements
I. Institutional Strengthening of "Secretaría Nacional de Capitalización e Inversión"	Recruitment of long term consultants (a senior economic adviser, a senior legal adviser and experts on privatization implementation) to support on the design and implementation of the program	Consultants recruited and working by April 1994
	Exchange of experiences with other countries of the region with experience in privatization, in particular in electricity, hydrocarbons and telecommunications	Missions from Argentina, Chile, Mexico, Peru and Venezuela
	Recruitment of communications consultants to design and implement a communications strategy for the program	Strategy designed by April 1994
II. Establishment of an appropriate legal framework for private sector investment in economic sectors covered by the program	Recruitment of legal advisers to conclude draft legislation for Telecommunications, Electricity and Hydrocarbons and to prepare the required regulations.	Draft legislation concluded by June 1994 and regulations enacted within 180 days of law enactment
III. Enterprise preparation for capitalization (YPFB, ENTEL, ENDE)	Recruitment of legal advisers to transform the enterprises to "Sociedades Anonimas Mixtas" and to transform the local telephone companies to "Sociedades Anonimas Mixtas"	Enterprises transformed by April 1994
	Recruitment of independent auditors to update and audit financial statements.	Financial Statements updated and audited by September 1994
IV. Completion of strategy design	Recruitment of consultants to assess the Government's work on the design of a strategy for ENFE, ENAF and LAB capitalization	Strategy designed by July 1994
	Recruitment of consultants to assess the Government's work on the design of a strategy for the privatization of enterprises controlled by the Regional Development Corporations	Strategy designed by December 1994

ANNEX V

TENTATIVE SCHEDULE FOR THE UTILIZATION OF MIF RESOURCES (US\$ 000)					
Quarters					
Sub Programs	1st	2nd	3rd	4th	Total
I	95.20	190.40	95.20	95.200	476.00
II	79.20	158.40	79.20	79.20	396.00
III	108.00	324.00	324.00	324.00	1,080.00
IV	76.80	153.60	76.80	76.800	384.00
TOTAL	360.20	828.40	578.20	579.20	2,336.00

PROPOSED RESOLUTION

BOLIVIA. NONREIMBURSABLE TECHNICAL COOPERATION
FOR A PROGRAM FOR CAPITALIZATION OF PUBLIC ENTERPRISES

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Republic of Bolivia and to take such additional measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT- with respect to a technical cooperation with the "Secretaría Nacional de Capitalización e Inversión", for a Program for capitalization of public enterprises.

2. That up to the amount of US\$2,336,000 is authorized for the purpose of this resolution, chargeable to resources of the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.