GLOBAL CREDIT PROGRAM FOR URBAN DEVELOPMENT AND SANITATION

(BO-0039)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR:	Republic of Bolivia	
EXECUTING AGENCY:	Fondo Nacional de Desarrollo Regional [National Regional Development Fund] (FNDR)	
AMOUNT AND SOURCE:	IDB:	US$57,100,000 OC US$ 6,900,000 FSO
	Subtotal:	US$64,000,000
	Local contribution:	US$16,000,000
	Total:	US$80,000,000
TERMS AND CONDITIONS:	Amortization period:	OC: 20 years FSO: 40 years
	Disbursement period:	4 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	OC: 0.75% FSO: 0.50%

OBJECTIVES:

The purpose of the program is to support municipal and regional development in Bolivia by consolidating the national mechanism for financing urban projects and contributing to the improvement of the local governments' capital base and management capacity. Specifically, the operation is designed to: (a) improve the physical infrastructure and increase the coverage of services in the country's urban centers; (b) strengthen the financial and management capacity of the municipalities and local public service entities; and (c) strengthen and consolidate the institutional and financial intermediation mechanisms as a means of fostering the decentralization of public functions.

DESCRIPTION:

The operation, which forms the second stage of a program begun in 1990, will act on two fronts: an Investment Projects component (US$74.6 million) for financing basic sanitation, road infrastructure and urban basic services projects, and an institutional strengthening component (US$4.8 million) for the executing agency (the FNDR), the regional financial agents – the Unidades Crediticias Financieris [Financial Credit Units] (UCFs), and the local

governments and public service entities responsible for the execution and operation of the projects.

ENVIRONMENTAL CLASSIFICATION: At its meeting of February 24, 1993, the Environmental Management Committee classified this operation in Category III and the Environmental Summary was approved at its meeting of August 10, 1993.

BENEFITS: The benefits that would be generated by the full execution of the program are the following: (a) improvement of the living conditions and quality of life for the populations of urban areas and populated centers, particularly low-income groups, with special emphasis on the basic sanitation sectors; (b) greater rationalization of public expenditure at local and regional level, from the standpoints of both efficiency and equity; (c) development of the institutional capacity of the local entities for planning and executing investments and efficiently administering the services they provide; and (d) greater awareness on the part of the municipal entities concerning the role of women and of women's organizations in local development.

RISKS: The chief risks of the program are connected with the following aspects: (i) delays in execution of the program due to the change of leadership that will take place in the FNDR with the change of government; (ii) modifications in the program financing mechanisms due to possible institutional changes in the regional intermediary entities – the UCFs and the Corporaciones Regionales de Desarrollo [Regional Development Corporations] (CRDs); (iii) slackening of investments in the basic sanitation sector on account of institutional and financial weaknesses in the operating entities; and (iv) persistence of the technical weaknesses displayed by the FNDR in the execution of PRODURSA I.

Various safeguards have been adopted to hold these risks to a minimum. With regard to risk (i), the Bank has maintained a close dialogue with the new government authorities, who have stressed the priority they assign to the FNDR and to the PRODURSA program, and have undertaken to ensure the continuity of the Fund's professional personnel. Regarding (ii), the program envisages strengthening the UCFs' execution capacity so that they will gradually become capable of operating more independently with respect to any type of regional government that may be set up in the future. Concerning (iii), the program's institutional strengthening component includes an

important subcomponent aimed at strengthening the operating entities' institutional capacity. In addition, the PRODURSA II investment projects will be required to contract operation and maintenance out to specialized organizations when the operating entities are weak. Finally, as regards (iv), the FNDR has taken corrective measures regarding its personnel establishment and its procedures for orienting and evaluating projects. For PRODURSA II, the execution of the program will be subject to a semiannual management audit process conducted by an outside consulting firm.

THE BANK'S COUNTRY AND SECTOR STRATEGY: The program is timely in terms of the decentralization process now underway in the country. The transfer of functions and financial resources from the central government to local entities has created a need to establish support mechanisms for the local investment process. PRODURSA II would continue this function, and thus help to implement the Bank's strategy of supporting the national development strategy of promoting investment projects in the medium term, especially in the social sphere, where the Bank would give high priority to the development of social infrastructure, using the project pipeline for 1993-95 and the operations already approved as starting point.

I. FRAME OF REFERENCE

A. Baseline data

1. Position of the sector: the decentralization process

1.1 The economic stabilization achieved in Bolivia since 1985 has opened the way for modernization of its institutional structures, especially in the public sector. An important part of this process is the decentralization of government, which is being consolidated as one of the main items on the country's political agenda.

1.2 Since 1986, with the entry into effect of the Organic Law on Municipalities (LOM), the local and regional entities have been becoming increasingly prominent in Bolivia's public apparatus. The LOM instituted for the first time democratic election of mayors and municipal councilmen and spells out the municipalities' responsibility in the delivery of urban services. With the promulgation of the Tax Reform Law in 1986, a mechanism was established for revenue sharing between the central government, the municipalities and the CRDs, which receive 1.2% of the national Gross Domestic Product (GDP).

1.3 The strengthening of the regional and local echelons is still an ongoing process. The National Congress has on its agenda two important proposed laws on the topic: the Concessions and Public Services Law, which consolidates municipal authority over a set of public services formerly distributed ambiguously among the central and local government authorities; and the Decentralization Law, which proposes creation of a departmental level of government and review of the distribution criteria for shared tax revenues. Under this second proposed law, department governments would be created on the basis of the present decentralized central government authorities, and these new department governments would perform functions in the health, education, agricultural development and other areas. However, these changes would take a number of years to implement.

1.4 With greater success, and perhaps with more impact than in the case of departmental governments, the decentralization process has made considerable progress at the municipal government level, with regard to public investment and provision of urban services. The key steps for institutionalization of this process include approval of the above two proposed laws. In addition, certain distortions need to be corrected that are constraints on the municipalities' performance, such as the short terms of office of mayors (only two years) and the instability of their staff.

1.5 With regard to the management and provision of local public services, concession systems and privatization are being encouraged, with a view to increasing the efficiency and coverage

of these services without overburdening the municipalities with new activities. Moreover, by means of financial intermediation mechanisms such as the FNDR and other funds, the intention is to increase the resources available for financing local projects, promote local technical and financial discipline and strengthen the municipal governments and local service entities in technical areas.

2. Urban growth and regional disparities

1.6 Bolivia is experiencing rapid urbanization, with high rates of urban growth and a marked rural-urban migration process. Between 1950 and 1992 the urban population increased from 26% to 58% of the total of 6.4 million. The urban growth rate of 4.1% is double that for the country as a whole (2.03%), a factor that is exerting great pressure on the supply of urban services. There is also a pronounced concentration in certain regions and cities, whose relative significance is continuing to grow.

1.7 Preliminary 1992 census data show the following trends in the country's urban growth:

Table I-1
DISTRIBUTION OF CITIES BY SIZE RANKING
1992

Size	No. of cities	Total inhabitants	% of population	Annual growth
Over 400,000	4	2,214,121	64.0	4.50
50 - 400,000	7	699,166	18.2	3.54
10 - 50,000	20	461,967	13.4	4.53
5 - 10,000	24	169,822	4.4	2.19
TOTAL	**55**	**3,545,076**	**100.0**	**3.69**

1.8 The four largest cities concentrate 64% of the urban population and are growing faster than the national urban average, especially El Alto (9.4%) and Santa Cruz (6.5%). The intermediate cities are all department capitals performing important functions as regional development centers. However, their growth rate is below the national average owing to the migration from the medium to the large centers and the crisis in the mining sector, which has affected cities such as Potosí and Oruro. The cities with between 5,000 and 50,000 inhabitants, despite being the most numerous, account for only 13.4% of the urban population.

1.9 The cities located in the eastern plains region, where agricultural and industrial activities predominate, are showing growth rates in

excess of 5.8% p.a., which is well above the national urban average. By contrast, the upland cities on the Altiplano, which have been hard hit by the slump in mining, are in many instances posting net population losses or low growth.

1.10 Bolivia is divided into nine departments, but 70% of the GDP and 68% of the country's population are concentrated in the departments of La Paz, Santa Cruz and Cochabamba, as shown in the table below. It is significant that the most dynamic economic activities (modern industry, export agriculture, financial services and international trade) are concentrated exclusively in these three regions, with the recent performance of Santa Cruz being particularly noteworthy. The disparity between regions in the country can also be observed in the relative concentration of urban poverty in each department, with particularly high levels in the departments of Potosí, Oruro and Pando.

Table I-2
REGIONAL INDICATORS

Departments	Population	%	Share of GDP (%)	Urban Poverty 1/ (%)
La Paz	1,900,786	29.6	26.0	59.0
Santa Cruz	1,364,386	21.2	24.8	50.5
Cochabamba	1,110,205	17.2	18.1	46.7
Potosí	645,889	10.0	7.9	66.1
Oruro	340,114	5.2	7.3	72.7
Chuquisaca	453,756	7.0	6.6	46.0
Tarija	291,407	4.5	4.9	48.8
Beni	276,174	4.3	3.4	79.5
Pando	38,072	0.5	0.9	53.6
TOTALS	6,420,792	100.0	100.0	56.4

1/ Family income covers less than 70% of the cost of a basket of basic consumer products.

1.11 In light of the concern expressed by the government regarding these regional imbalances, it has been agreed that investments in the most prosperous regions will be limited to a maximum of 60% of the program resources and that priority will be given to the poorest regions (such as Potosí, Oruro Beni and Pando) in financing for preinvestment purposes and in the allocation of supplemental transfers (see Chapters II and III).

3. The local entities

1.12 Bolivia has a unitary system of government, in which only the central and municipal governments are constituted as formal levels of government. The regional or supralocal functions are handled inadequately by the central government decentralized bodies (the prefectures and regional development corporations). The nine departmental CRDs, set up by the central government to plan and finance local and regional works, currently enjoy considerable autonomy owing to their independent sources of income (see Table IV-4). However, their activities are very scattered and they do not have specific responsibilities for urban or regional services.

1.13 The municipalities play a key role in the political organization of the country, exercising important urban and local functions. These include urban planning, implementation of basic infrastructure, provision of urban cleansing services, public lighting, markets, slaughterhouses, cemeteries, public recreation areas, environmental conservation and sanitary surveillance, traffic regulation and vehicle registration in general. The municipalities are empowered to regulate the provision of services in general, including the granting of concessions to private enterprises to operate such services, although this activity is still subject to some legal disputes.

1.14 Tax revenues (industrial and business licenses, taxes on real estate and vehicles) together with the share they receive from national tax proceeds, form their main revenue sources. National revenue-sharing accounted for 48% of the current revenues of the municipalities that were department capitals in 1991. This figure is influenced by factors such as the size of the municipality and its importance as a center of economic activities, because the distribution key for Value-Added Tax revenue tends to favor cities selected as centers for state commercial or other activities. This gives rise to distortions in favor of the capital city, which shares in tax revenues generated by the entire country. Legislation has already been proposed with a view to modifying the tax revenue distribution criteria so as to correct situations such as this and to add redistributive features to the system and foster local tax performance.

1.15 Except for the municipalities that are department capitals, the majority of Bolivia's 250 municipalities are technically and financially in a very weak position for assuming full responsibility for the functions assigned to them. In most cases the CRDs have taken charge of the funding of urban infrastructure, roads, electricity services and basic sanitation. The basis urban services such as markets, slaughterhouses, public cleansing and others, all suffer from major shortcomings because of the weakness of the municipalities which have limited coverage and administrative deficiencies.

1.16 Despite their great differences in size and administrative and financial capacity, the municipalities are the governmental units with the greatest potential for institutional development. However, their formal responsibilities need to be potentiated by means of enhancement of their financial and management capacity. This can be done by more effective utilization of the local tax base, introduction of administrative procedures and financial control and adoption of cost-recovery practices with respect to local investments. These are the specific goals supported by the institutional strengthening component of PRODURSA II.

4. Urban services

a. Basic sanitation

1.17 The basic sanitation sector in Bolivia is characterized by relatively low rates of coverage, mounting pressures for expansion of services in the rapidly growing cities and significant institutional problems still to be resolved. Water service coverage in 1990 was 77% in capital cities, 67% in intermediate cities and 30% in rural areas. Forty-five percent of homes in the capital cities had sewer service, and 7% in the intermediate cities. In the rural areas, only 15% of dwellings used latrines or other individual disposal systems.

1.18 In the larger cities the basic sanitation services are generally run by decentralized municipal companies or service cooperatives. In the medium and small cities, the services are administered by cooperatives or directly by the city councils, while in the rural areas local boards are generally formed to operate the community water services.

1.19 The organizational and operating structure of the sector was radically changed in 1991. The new sector legislation encourages decentralization of the provision of services, delegating responsibility for operation of the systems to the municipalities, their independent agencies, cooperatives, companies and community boards. The Ministry of Urban Affairs, through the Directorate of Basic Sanitation (DINASBA), is responsible for investment programming at national level, preparation of technical standards, setting of tariff policies and, in general, promotion of the sector's institutional development. The CRDs, through the regional sanitation authorities, will be responsible for the programming, supervision and execution of works, technical support to local systems and control of the quality of services in the smaller systems.

1.20 The problems common to the sector entities, especially the smaller ones, are connected with the administrative and financial weakness and very limited technical capability resulting from the small size of the local entities. These weaknesses are due in part to the absence of regional entities that could provide the services more

efficiently and at lower cost. The restructuring of the sector has not produced a satisfactory solution to this problem.

1.21 The limited self-financing capacity results from failure to comply with the directives put out by the Ministry of Urban Affairs (MAU) regarding operating and tariff matters. Many municipalities cite the autonomy granted by the Organic Law on Municipalities as the reason for ignoring such instructions. To this must be added the problems connected with the legal system under which the service cooperatives have to operate, since doubts still persist as to the municipalities' authority to regulate them. It is hoped that the new Public Services Concession Law will resolve this problem by recognizing the municipalities' authority in local regulation, but imposing national rules with regard to questions of tariff policies and technical supervision.

b. Other services

1.22 **Electricity:** Electricity service coverage in the urban areas is 91.7% of homes, but in the rural areas it is only 26.5%, according to UNICEF data for 1991. The sector is characterized by the coexistence of public and private generation and transmission companies and a diversity of distribution service providers. Primary generation is handled by the Empresa Nacional de Electricidad [National Electricity Company] (ENDE), except in the La Paz and Oruro areas where private companies hold concessions to provide the service. In the other capitals and smaller cities, state companies or user cooperatives have been set up that are basically responsible for local or regional distribution. Bolivia has a total of 147 registered cooperatives of different sizes for this purpose.

1.23 The Dirección Nacional de Electricidad [National Directorate of Electricity] (DINE), attached to the Ministry of Energy and Hydrocarbons, is the national authority that sets tariff policy at generation level and lays down the guidelines for distribution tariffs. Local distribution tariffs are formally approved by the Dirección Nacional de Energia, in accordance with a preset cost structure, which has to ensure a 9% p.a. profit level for the companies. This is not readily verifiable in practice, as is evidenced by an FNDR study which reveals significant financial difficulties in the country's main electricity undertakings.

1.24 **Markets:** The absence of any general regulations or policy on food supply and distribution in the country means that, in practice, the municipalities are only involved in the construction, administration and maintenance of markets. The food marketing system has minimal modern sector participation, with very few supermarkets. The most common practice is for everything to be sold in the street markets. With a few exceptions, the public markets suffer from deplorable infrastructure and operating

conditions. Nationwide, the retail sector's needs in terms of the construction, remodeling or expansion of markets are estimated at 14 central, 27 neighborhood or provincial and 19 farmers' markets.

1.25 The FNDR, through its projects, is promoting the management of markets through concession contracts. This arrangement consists of construction under the city authorities' responsibility, with subsequent transfer of the stalls to individual merchants under concessions for set periods. The cleaning, maintenance and guard services are financed by the concession-holders, organized in condominium fashion.

1.26 **Bus terminals**: Regulation and operation of bus terminals is a municipal function, although the CRDs commonly handle construction because of their greater financial resources. Seven of the nine department capitals currently have bus terminals (all except Trinidad and Cobija). The bulk of the demand is concentrated in the secondary cities, especially those experiencing rapid demographic growth. About 20 of the existing 45 secondary cities possess characteristics that would warrant a central bus terminal.

1.27 There are no clear legal rules regarding the municipalities' power to grant concessions, but there is a precedent as regards concessions to private enterprises for administering terminals. In the case of the Santa Cruz bus terminal project (PRODURSA II), the arrangement selected was state ownership of the terminal with full administration of the service handled by the private sector on a concession basis.

1.28 **Urban roads**: Although formal responsibility for regulation, construction and maintenance of urban roads and other road works lies with the municipalities, both the central government and the CRDs act in the sector. Due to the explosive growth of the country's cities, this is the urban infrastructure item where demand is greatest. The municipalities are empowered to impose special taxes to finance new road works. However, this power is not widely used and still encounters considerable resistance. A real estate tax, based on updated property values, continues to be the most effective way of funding such works.

1.29 **Solid waste**: This service is exclusively a municipal responsibility and present coverage is 43% of urban homes. In the majority of cases the urban cleansing and trash collection service is organized as a directly municipally run activity. However, in the larger cities there is a growing tendency for these services to be contracted out to the private sector. This is a new development and some difficulties are still being experienced. In the PRODURSA projects financing activities complementary to the donation of equipment by the Japanese government, the system adopted is to set up municipal urban cleansing enterprises which are then made

responsible for contracting and supervising the private companies that provide the services.

1.30 **Urban property records:** A tax on urban real estate has been in effect in Bolivia since 1936, under the centralized collection system. As a result of the tax reform its name was changed (to Tax on Presumed Income from Real Estate) and a self-assessment system was introduced under which the owner files a sworn return on the value of his property based on nationally published unit values.

1.31 This is a temporary system that is to be replaced by each municipality's property record system. The municipalities can draw up and administer their own property records in accordance with the current technical rules (set down in the National Urban Property Records Regulations). The property records projects identified in PRODURSA I will not be implemented because of their very high costs for the municipalities. As a means of solving the problem, simpler methodologies will be adopted for future projects in the larger cities. In the others, standardized tax administration systems will be implemented through the institutional strengthening component, using property record modules that concentrate on the tax collection aspects.

B. Results of PRODURSA I

1.32 In November 1990 the first phase of the Global Credit Program for Urban Development and Sanitation (PRODURSA I) was adopted, in a total amount of US$80 million. The program consisted of three components: a credit component of US$73.4 million to finance local basic urban infrastructure projects; an institutional strengthening component of US$5.5 million, designed to strengthen the execution, and operating entities of the projects and also the FNDR itself; and thirdly, a nonreimbursable technical cooperation component (US$3.3 million) to fund sector studies and projects.

1.33 As of July 31, 1993, 70% of the Bank funds and 48% of the counterpart funds had been disbursed. Of the 32 projects to be financed by the program, 31 are currently under execution and the contract has been awarded and is in process of signature for the final one; at the present pace of execution, it is expected that 28 would be completed by the end of this year.

1.34 Of these 32 projects: (i) 13 are for water supply and sewerage, and will raise water supply from 75 to 120 liters/person/day and increase sewer service coverage from 8% to 87% in the beneficiary communities; (ii) 5 are for channelling and drainage, involving construction of 14.9 km of channel, which will generate a saving of US$11.8 million in terms of damage prevented; (iii) 3 are for solid waste disposal, which will increase coverage of this service from 43% to 95%; and (iv) 11 are for urban roads, comprising paving of 140 km of roads. The program has had significant impacts in the 24

cities benefited, particularly in the social and environmental context, because 36% of its resources have been invested in basic sanitation and a system of project environmental quality control has been implemented in which the technical personnel have been trained.

1.35 The institutional strengthening component is being used to benefit five municipalities and 12 water supply companies in intermediate cities. The assistance to the municipalities is focused in tax administration, financial administration and service administration, with the primary objective of increasing revenues, generating surpluses for investment and making the services self-sustaining. In the case of the public service enterprises, the assistance is concentrated in the tariff and commercial systems, financial administration, and operation and maintenance areas. In addition, 13 training events have been held which were attended by 487 participants, 71% of whom were from borrower institutions and 29% from other institutions such as construction companies, consulting firms, ministries and universities.

1.36 The training given was in the areas of the socioeconomic appraisal of projects, use of the environmental impact manual, tariff policy for water systems, institutional and financial appraisal of municipalities and budget processes for public works. In the sector area, the technical cooperation for the Directorate of Urban Property Records was completed. The process of regularizing the operation (which is explained further on) has been useful for training the FNDR in application of the Bank's rules and improving the program credit and procurement regulations. Capitalizing on the experience gained by the FNDR and all the participants in the PRODURSA I intermediation system, the World Bank has decided to finance a US$57-million program utilizing the same intermediation system and the credit regulations applied for PRODURSA II (see paragraphs 1.51 and 1.52).

1. <u>Problems</u>

1.37 The FNDR has executed the program very quickly but has encountered problems in its implementation. FBO and the Operations Department administration missions have identified these problems and proposed solutions. The details, item by item, are set forth in the reports prepared by the three administration missions, the report of the audit mission which reviewed the operational activities of the field office in Bolivia (December 2-17, 1992), and the different reports submitted by FBO, for the preparation of which four independent consultants were hired. The program's problems are summarized by area below, with an indication of the actions already taken and those in process to resolve this situation in PRODURSA I and, finally, the steps that have been taken for phase II on the basis of the lessons learned.

1.38 **Mechanisms for contracting works:** Responsibility for the bidding process was assigned to an external procurement agency. Owing to the quantity of bidding competitions that had to be processed to keep up with the rapid execution of the program, this agency fell behind, which had repercussions for the execution of various projects and threw the hiring of consulting firms out of schedule. In particular, many of the works already contracted could not be started because of delays in the hiring of supervisors for them. In addition, not all the procurement rules were complied with: official Bank-approved budgets were not always used, while in some cases all the embassies were not notified and the required announcements were not placed in specialized periodicals.

1.39 **Design weaknesses and additional costs:** Shortcomings on the part of the FNDR in guidance for and analysis of projects in the preparation phase, combined with lapses on the part of the Bank and the FNDR in the technical supervision of this process, meant that deficiencies in project design were not detected in time, with the result that the budgets originally approved for the works had to be increased by an average of 19%.

1.40 **Credit Regulations:** When the basic sanitation projects were approved, the eligibility rule that requires enterprises operating sanitation systems to demonstrate institutional and financial capacity to operate and maintain the works and equipment was not observed. Water supply projects were financed without taking into account the need for waste water disposal. Tariff requirements were also disregarded. In analyzing investment projects, the FNDR limited itself to assessing the institutional and financial capacity of the borrower entities, which under the PRODURSA I rules could only be the CRDs, but did not verify the capacity of the entities directly responsible for operation of the works and services, which led to some projects being approved for which there were no viable operating entities. Contracts were awarded for four projects involving amounts in excess of the discretionary limits above which prior Bank clearance should have been obtained.

1.41 **Local contribution:** In PRODURSA I, this contribution was initially to have come from the Japanese OECF, but the Bolivian government subsequently decided to assume this obligation. This created delays in meeting the "pari passu" requirement, performance of which has improved from 3% in October 1992 to 18.7% as of now.

2. Measures taken in PRODURSA I

1.42 With a view to regularizing the operation (bringing all actions into compliance with the Bank rules), FBO, together with the OPS administration missions and the FNDR, conducted an analysis of the problems and prepared a diagnosis classifying them as follows: (i) cases regularized; (ii) cases to be regularized within a specific period of time; (iii) cases the regularization of which

will depend on information to be obtained from the FNDR and/or UNDP/OSP; and (iv) other unresolved cases. Annex I-1 provides a timetable for cases whose regularization is now being processed.

1.43 To accomplish the foregoing, FBO hired an independent consultant to prepare an inventory of application of the credit regulations, and another to conduct an analysis of the costs and degree of progress in executing the works financed. These analyses have now been finished, the archives have been completed, the matter of the contracts awarded for the four projects beyond the discretionary limit is being regularized, and the cases in which the mistakes made can no longer be corrected – such as when embassies were not notified and announcements were not placed in specialized journals regarding contracts that have now been awarded – have been identified.

1.44 On the basis of the inventory of application of the credit regulations, the FNDR is working, in each project, on all the items where the regulations were not followed, such as legalization of ownership when the works have been completed; progress already stands at 75%. In the same way, the FNDR, in cooperation with the procurement agency (UNDP/OSP), is completing the archives relating to all the contracts executed; in the course of this work it is finding that in the majority of cases the rules were in fact followed but the pertinent documentation was not forwarded by the FNDR to FBO. Progress is at 90%. The report on project cost analysis found that the main problem was the lack of appropriate designs and weaknesses in supervision, especially on the part of works inspectors. The FNDR, after studying this consultant's report, took note of the relevant recommendations and proceeded to implement them. The Bank will continue to monitor implementation of these recommendations. To improve its quality control and supervision it has added 11 experienced engineers to its engineering team.

1.45 Regarding the sanitation sector problems, agreements have been concluded between the CRDs and the cooperatives, by which the latter undertake to hire operating and maintenance services for the water systems and to apply tariffs consistent with the Bank's policies. A situation and options diagnosis is being made for the projects which failed to make provision for waste water disposal (Pailas, Pailón, Mineros and Puerto Suárez). The FNDR has also prepared a detailed schedule for the implementation of measures concerning both water and sewerage and urban cleansing projects that are prerequisites for disbursements under PRODURSA I.

3. Measures to be taken in PRODURSA II

1.46 **Procurement agency.** The three agencies authorized by the government will be engaged simultaneously and contract clauses will be introduced that limit processing time and oblige the agency to

program the bidding process properly and to comply with the rules laid down by the Bank.

1.47 **Additional costs and supervision.** The following steps have been taken: (i) a preinvestment credit line will be included that will make it possible to generate better projects; (ii) submission of final engineering designs will be required before approval of financing; and (iii) the present supervision system will be strengthened, with minimum qualifications being set for inspection engineers and contractual conditions that will ensure better coordination between the supervisors and the contractors.

1.48 **Credit regulations.** The measures required to prevent the shortcomings manifest in PRODURSA I have been included and training in the regulations will be given to all echelons of the PRODURSA II intermediation system. The above-mentioned agreements will have to be signed prior to approval of the financing, and an institutional analysis will be made of the service operators and the effectiveness of both the tariff structures and of the operation and maintenance of the systems will be verified. The FNDR has set up consultant groups for this purpose whose function would be: (i) to develop and implement operating and maintenance manuals; (ii) to manage the transfer of the projects to the operators; (iii) to design and implement the tariff structures; and (iv) to implement the institutional strengthening measures. Within six months from the date of the contract, the contract for the sector study referred to in paragraph 2.15 for finding a global solution to the sanitation problem is to be awarded. In order to verify compliance with the Credit Regulations and the effectiveness of the supervisory framework, the FDNR's internal auditing process will be strengthened and a qualified firm will be hired to conduct a semiannual audit of the FNDR's management in respect of the project.

C. Other complementary programs

1.49 The Bolivian government is mobilizing a considerable volume of local and international resources to finance local projects. The mechanism adopted has been to establish special funds operating on the basis of nonreimbursable transfers or credits. The first category includes the Social Development Fund (FIS), the Rural Development Fund (FDC) and the Alternative Development Fund (FONADAL).

1.50 The FNDR is in the second category, being designed to ensure continuity of the financing system through recovery of the loans in its portfolio. The programs administered by the FNDR up to the present and currently under negotiation are the following:

Table I-3
PROGRAMS ADMINISTERED BY THE FNDR

Institution/Program			Amount of Operation (US$000s)	Status
IBRD	-	Water Supply: Santa Cruz, Cohabamba and La Paz	45,000	In execution
GTZ	-	Microenterprise Support and TA for Urban Cleansing	720	In execution
IDB	-	PRODURSA I	80,000	In execution
JAPAN	-	JICA - Urban Cleansing	16,000	In execution
IBRD	-	Municipal Devt. Program (PRODEMU)	57,000	Under negotiation
IDB	-	PRODURSA II	80,000	Under negotiation

1.51 The last three operations (Improvement of Cleansing Services, PRODEMU and PRODURSA II) form part of an integrated FNDR program and are subject to the same operating regulations for eligibility and investment project design and institutional strengthening. The Urban Cleansing Service Improvement Project, approved in 1992 as a grant by the Japanese government in an amount of approximately US$16.1 million equivalent, is intended exclusively for financing urban cleansing equipment to complement the PRODURSA cleansing projects. It should be noted that up to US$13 million of the total amount of this project will be accounted for as a contribution to the local counterpart for PRODURSA II (see Table II-1).

1.52 The IBRD Municipal Development Program (PRODEMU), scheduled for approval in parallel with PRODURSA II, will have investment financing and institutional development components similar to this operation, with the exception that they would be limited to PRODEMU investments in medium-sized municipalities. In the institutional strengthening area, PRODEMU would complement the PRODURSA activities with a support component for modernization of the municipal civil service and establishment of a Municipal Development Institute. PRODURSA, on the other hand, would assume exclusive responsibility for institutional strengthening of the FNDR and of the program financial intermediaries.

II. THE PROGRAM

A. Objectives

2.1 The main purpose of PRODURSA II is to support municipal and regional development through the financing of urban infrastructure works and services. The program forms part of the Bolivian government's strategy of channelling resources to the local echelons by means of investment projects, with the aim of rationalizing the process on the basis of technical and economic appraisal criteria.

2.2 By way of specific objectives, the program proposes to promote:

a. Improvement of the physical infrastructure and coverage of urban services;

b. Strengthening of the financial and management capacity of the services, municipalities and local public service entities; and

c. Strengthening and consolidation of the institutional and financial intermediation mechanisms, to facilitate the decentralization of government.

B. Description

2.3 The program consists of two components: one of US$74.6 million for financing a line of credit for execution of basic sanitation, infrastructure and urban public service projects submitted by municipalities, CRDs and public service entities; and the other, of US$4.6 million, intended for the institutional strengthening of the program central executing agency (the FNDR, the regional financial agents (UCFs), and the local governments and public service entities responsible for the execution and operation of the projects.

1. Investment projects

2.4 The subloans that would be granted with PRODURSA II funds will be intended for projects in the following sectors or for works and services of the types noted:

a. Basic sanitation - Water supply and sewerage: construction, expansion and/or improvement of one or more components of these systems, from water catchment works to house distribution, and from sewer systems to final disposal of the effluent, including works for control of pollution of receiving bodies of water; also institutional strengthening for the system operating entities.

b. **Channeling and drainage**: construction of river channeling works, rainwater drainage and works to protect areas subject to a high risk of flooding or slides in populated urban locations.

c. **Solid waste**: in the context of a general cleansing plan, execution of civil works and provision of equipment for trash collection, street cleaning, storage and final disposal of solid waste, together with investments for improving the administration of the entity operating the service.

d. **Urban roads**: the projects are designed to resolve traffic and transportation problems in urban centers and improve the quality of roads and access to existing urban neighborhoods. They include: (i) construction, rehabilitation, expansion and paving of urban roads; (ii) construction of urban intersections, bridges and tunnels; (iii) signposting and other traffic engineering investments; (iv) complementary works, such as lighting, green areas and signposting; and (v) institutional development for the traffic administration or urban maintenance entities.

e. **Land transport terminals**: construction of new terminals and their facilities, expansion and improvement of existing terminals, installations and internal and communications equipment, parking lots, access roads and other complementary works.

f. **Public Lighting**: installation, expansion and improvement of existing systems, including civil works, stringing of systems, posts, cables, transformers, lamps, and other accessories necessary for the operation of the system.

g. **Markets**: construction and/or remodeling of facilities for retail sale of food and storage centers for food distribution and sale, including buildings, equipment, complementary works for general and support services, child-care facilities and access roads. Technical support for the implementation of solutions for decentralized and autonomous management of markets.

h. **Slaughterhouses**: construction, expansion and rehabilitation of installation and equipment for livestock slaughter, including refrigeration facilities, byproduct recovery and effluent treatment.

i. **Electric energy**: medium and low-voltage electric energy projects, including systems for distribution to homes and

loss-reduction programs. Institutional strengthening of the entities operating the systems.

j. **Property records.** Resurveying and recording of main and intermediate urban centers, including aerial photogrammetry, topographic surveys, questionnaires, computerized billing, updating and other measures. Consultancy services, training programs, technical assistance and equipment rental for specialized works.

k. **Preinvestment studies:** include the hiring of consultancy services for project preparation, including engineering studies and designs, economic analyses, financial and institutional analyses, urban development, sector and/or administrative development plans connected with the design and justification of the projects.

2.5 In addition to the above sector activities, the possibility will be considered of proposing the incorporation of other sectors and/or activities during execution of the program, with the Bank's prior consent.

2. Institutional strengthening

2.6 The institutional strengthening activities will be closely connected with the investment programs, supporting the entities directly or indirectly involved in the administration and operation of the program-financed services. The component includes: (i) strengthening activities for the municipalities and public service entities; (ii) support for the program executing agencies, the FNDR and the UCFs; and (iii) special studies on the privatization of public services and on municipal policies concerning women. The cost of the strengthening for public service entities forms part of the cost of the investments, while the support for the municipalities and executing entities is budgeted in this component.

a. Municipal strengthening

2.7 The strengthening of the municipalities will concentrate on establishment of financial and tax management instruments. For the service-operating entities, the technical support will consist in design of administrative systems and structures and the setting of tariff levels that will ensure proper operation and maintenance of the services financed by the program. The specific subcomponents would be the following:

2.8 Technical advice projects with emphasis on the financial and tax administration areas. This includes the organization of processes and training and implementation of information systems on: (i) tax collection, including taxpayer registers, billing and control of

payment of municipal taxes; and (ii) financial administration, integrated budget systems, accounting and cash management. These systems would be established in 28 municipalities, six of which would be financed by PRODURSA and the rest by the World Bank. Average implementation cost in large municipalities has been estimated at US$400,000, and in small ones at US$60,000. The Bank financing for this subcomponent would be US$1 million.

b. Strengthening of the public service enterprises

2.9 The companies or entities operating the water, sewerage and electricity services financed by PRODURSA II would receive advisory services concerning their chief administrative and operating aspects. Consultancy services would be hired for the following activities: (i) financial and commercial area: financial and accounting systems, billing and collection systems, control practices and property registration budget; (ii) operational area: inventories of service networks, operating and maintenance practices; and (iii) organizational aspects and external contracting of operation and maintenance services, when required. The cost of strengthening the Empresas de Servico Publico [Public Service Companies] (ESPs) would be included in the financing of the investment projects. It is estimated that 20 ESPs will be supported in the course of the project.

c. Strengthening of the FNDR and UCFs

2.10 The strengthening of the FNDR has the double aim of supporting the execution of its new programs and providing it with capacity to develop its technical and financial functions. The three-year program would consist in financing 68 man-months of international consultancy services and 610 man-months of national consultancy services, aggregating US$2.4 million.

2.11 The strengthening plan presumes gradual incorporation of the local consultants into the FNDR's personnel establishment. The Fund will be required to maintain one professional as counterpart for each one of the consultants hired under the strengthening program for the institution. In addition to supporting the FNDR, the consultants would participate in the training of the regional UCFs' personnel. The intention is to strengthen four of the existing eight UCFs (Santa Cruz, Chuquisaca, Cochabamba and La Paz), by means of methodological support in project appraisal, with the aim of decentralizing the FNDR's activities so as to prevent the growth of its operations causing excessive increases in its personnel.

2.12 The FNDR institutional strengthening unit has been set up to administer the institutional strengthening components of PRODURSA II and the World Bank's PRODEMU. The support for PRODURSA will cover the operating costs of this unit, which is made up of a coordinator, five sector specialists and support personnel. The cost of its first two years of operation is put at US$700,000.

d. Sector support

(i) Privatization of municipal services

2.13 This component consists of pilot programs for the privatization of municipal public services. These involve direct advisory services to the municipalities in the entire process of analysis of economic alternatives, formulation of technical proposals and running of the process of concession, privatization or other management modalities for municipal services. The model procedures developed for each type of service would be made available to the municipalities concerned. The services selected would be public lighting, bus terminals, markets, slaughterhouses and cemeteries. The FNDR already has a model for urban cleansing. The cost of these projects is put at US$150,000.

(ii) Support for women

2.14 This includes a support program for the national entity responsible for execution of actions in this field, the National Organization for Minors, Women and the Family (ONAMFA), and introduction of design modifications in the operation of program-financed services of special impact on female users. The program and the support to ONAMFA include: (i) a diagnostic study of the "Situation of the low-income urban woman in Bolivia", complemented by the formulation of municipal policy guidelines in favor of women (US$150,000); and (ii) a training program for municipal staff, to disseminate the content and scope of the social policies for women formulated by ONAMFA, and thereby raise the level of awareness and training regarding women's problems and their relationship with the municipality (US$205,000).

(iii) Strengthening of the sanitation sector

2.15 Includes an integral study of the institutional, legal and administrative framework of the water and sewerage sector. The result, after consultation with the respective authorities, will be the formulation of an action plan to resolve the problems considered most critical. The study will entail an institutional diagnosis of the sector with emphasis on: (i) analysis of the administrative structure at regional and local level; (ii) the problems of the entities in medium and small communities, especially with regard to operation and maintenance; (iii) the financial and tariff aspects; (iv) the possibilities of regional integration and/or cooperation; and (v) the possibilities of greater private sector participation.

C. Total cost and financing

1. Total cost

2.16 The Bank financing of US$64 million equivalent would be made up of US$6.9 million from the Fund for Special Operations and US$57.1 million from the Ordinary Capital. The local contribution of US$16 million would consist of: (i) US$2.1 million from the contributions of the subborrowers who will be required to contribute at least 5% of the total amount of the subloan for financing their projects; (ii) US$900,000 from the FNDR's contribution for institutional strengthening; and (iii) US$13 million from two grants from Japan made available through JICA, that have now been finalized, one for the program for improving the urban cleansing service in the cities of Santa Cruz and El Alto, and the other for the same purpose in the cities of Oruro, Potosi, Tarija and Trinidad.

2.17 The categories and sources of financing are detailed in the following table:

Table II-1

TOTAL COST AND SOURCES OF FINANCING
(In US$ millions equivalent)

COMPONENTS	IDB			Local Contribution		Total	%
	FSO	OC	Total	Subborrower	JICA/Japan grant		
Line of Credit	3.0	56.5	59.5	2.1	13.0	74.6	93.5
Institutional Strengthening	3.9	-	3.9	0.9 1/		4.8	5.8
Inspection and Supervision	2/	0.6	0.6	-		0.6	0.7
Total	6.9	57.1	64.0	16.0		80.0	100.0
%	8.6	71.4	80.0	20.0		100.0	

1/ FNDR.
2/ US$69,000 for inspection and supervision.

2.18 The US$3 million of FSO resources allocated to the line of credit would be used to finance the prefeasibility/preinvestment studies, which is different from the preceding loan and is included for the purpose of prompting execution of projects in regions whose municipalities have little installed capacity, which are generally those in the lowest income category.

D. Demand and dimensioning

1. Investment component

2.19 The FNDR currently has a US$175-million pipeline made up of 140 projects. Of these, US$16 million are for an indicative sample of projects examined and approved by the project team for financing in PRODURSA II (see Chapter V); another US$65 million relate to projects already formulated and under appraisal by the FNDR; the rest, US$94 million, relates to projects in formulation.

2.20 In addition, the FNDR estimates that each year it identifies for its inventory an average of US$60 million in new projects with a high probability of becoming viable investments. This means that before the end of the last year of execution of the program around an additional US$240 million will have been identified which, combined with the present pipelines, becomes a total potential demand of US$415 million. If it is borne in mind that as a result of the requirements of the credit regulations only 75% of the projects now under appraisal and 50% of the rest of the potential demand will actually become viable projects, the effective demand for the resources channeled through the FNDR would exceed US$200 million.

2.21 To meet this demand the FNDR currently has resources amounting to US$56 million: US$40 million in World Bank loan funds and US$16 million in local counterpart funds to that loan. The financing proposed by the IDB of US$64 million (including US$3.7 million for institutional strengthening), plus US$16 million from the JICA, will make the total supply of resources to be channeled through the FNDR over the next five years US$136 million, which is clearly below the effective demand as projected above.

2. Institutional strengthening component for municipalities

2.22 The FNDR has identified 28 projects for strengthening municipalities of various sizes, at a total cost of US$3.6 million to be funded in part by the World Bank (US$1.7 million), the IDB (US$1 million) and the rest from local counterpart resources. The projects would be aimed solely at the financial sectors of the municipalities, which would make it possible to better focus and control the work. The computerized methodologies and systems that the FNDR is developing in the areas of taxation and financial administration would be transferred to the consulting companies that would be set up in the municipalities and ESPs.

3. FNDR execution capacity

2.23 With regard to the FNDR's execution capacity, in the past three years the Fund has committed US$100 million in a total of 32 projects, i.e. an average of US$33 million and 11 projects per year (at an average cost of US$3.1 million per project). The sum of

US$136 million for the next five years would permit an annual investment of US$27 million. However, it is estimated that in this stage of the program the average cost per project will have to come down to US$1.5 million, meaning that the total number of operations per year will have to be increased by a factor of 1.6, i.e. to approximately 18 operations per year. This will therefore call for a considerable effort on the part of the FNDR, in firmly establishing its systems and beginning to use outside consultants for the proper preparation of projects, which is why the program envisages preinvestment as a financing item.

2.24 To securely establish the different execution systems a strengthening component for the FNDR and the UCFs is envisaged in an amount of US$2.4 million, partly financed by the Bank. Also, to consolidate the FNDR it has been established that all the local consultants financed by the program would be permanently absorbed in the third year of execution.

4. Conclusion

2.25 For the reasons set forth, the program is considered adequately sized, since the probable effective demand and the availability of other resources have been taken into consideration, together with the FNDR's capacity to invest in projects with demonstrated viability in accordance with the requirements of the credit regulations.

III. THE EXECUTION OF THE PROGRAM

A. Global financing arrangements

3.1 As with PRODURSA I, the borrower for the operation will be the Republic of Bolivia, which has designated the FNDR as executing agency for the program, with responsibility for administering the portfolio of investment projects and the institutional strengthening component. The proceeds of the Bank loan intended for financing the program line of credit would be transferred by the borrower to the FNDR by means of a subsidiary loan contract, at the same interest rates and amortization periods as the loans from the Bank to the Republic. The loan proceeds earmarked for the program automatic transfer mechanism and its institutional strengthening component would be transferred by the borrower to the FNDR on a nonreimbursable basis, and are estimated to represent some 36% of the Bank loan funds.

3.2 The program funds intended for investment projects would be granted mainly through subloans, at interest rates that are positive in real terms and not below the borrowing rates in the financial market. Projects in the basic sanitation, property records and

other sectors whose benefits would be experienced primarily by low-income households could receive a part of this nonreimbursable financing, by means of an automatic transfer mechanism the program would offer to encourage investments with high social or fiscal impact. Under this mechanism, projects that are classified in one of these three categories would be entitled to a nonreimbursable transfer equivalent to 20% of the total cost of the investment (if classified in both categories, a project could receive up to 40% of its total cost in nonreimbursable form).

3.3 As in PRODURSA I, the program beneficiary entities would mainly be those with direct responsibility for running urban public services: (i) municipalities; and (ii) municipal autonomous undertakings, public enterprises, mixed corporations or public service cooperatives (ESPs).

3.4 Unlike in PRODURSA I, in which the beneficiary entities could only access program financing through the CRDs, in PRODURSA II local entities that demonstrate adequate borrowing capacity would be offered direct access. In this way, municipalities and ESPs that can show that their debt ratio (ratio of current revenues less expenditures to debt service, including costs of the project under consideration) is in excess of 1.4, would be able to apply directly to the FNDR for loans, offering their own guarantees for such financing. Those with debt ratios between 1.4 and 1.2 would be able to apply to the Fund, subject to submission of guarantees of their own backed by the CRD of their department. This debt ratio must be maintained throughout the life of the loan received. To encourage this group of municipalities and ESPs to borrow directly from the FNDR, they would only be permitted a second financing if they can show that they are meeting the goals of an institutional and financial strengthening plan agreed upon with the FNDR.

3.5 Municipalities and ESPs with debt ratios below 1.2 would not be able to apply directly to the FNDR. In such cases the borrower would be the relevant CRD, which would transfer the financing to the beneficiary entity in the form of a subloan combined with transfers, being required to maintain for such subloan the same terms and conditions as in the loan from the FNDR.

3.6 In addition to the automatic transfers from the FNDR, subloans from CRDs could also include complementary transfers based on the beneficiary entity's borrowing capacity. The funds for these complementary transfers would come from the corporations when their debt ratio is in excess of 1.4. In cases where this ratio is below that value and the CRDs are located in Beni, Pando, Oruro and Potosí, the Tesoro General de la Nación [General State Treasury] (TGN) would provide the complementary transfers. In no case may the total amount of automatic and supplemental transfers issued exceed 80% of the financeable portion of the investment. Like the previous group, these municipalities and ESPs would only be able to receive a second financing if they demonstrate that they are fully

meeting the goals of their respective institutional and financial strengthening plans.

3.7 The local counterpart for the projects included in PRODURSA II would be made up of: (i) the subborrower's own resources, the subborrower being required to contribute at least 5% of the investment amount; and (ii) contributions from the TGN or other sources such as grants from international or bilateral organizations.

3.8 To guarantee payment of the interest, fees and amortizations on the subloans granted by the FNDR to program subborrowers, the latter will be required to adhere to the guarantee system established in respect of their fiscal current accounts, in accordance with the terms laid down in the agreement that would be concluded between the Central Bank of Bolivia and the FNDR. This guarantee mechanism has been implemented in accordance with the Ministry of Finance's powers to authorize the opening, closing and disposal, in cases where economic circumstances so dictate, of the current accounts of public sector entities in Bolivia.

3.9 This system specifies that in cases of default in the payment of interest, fees and amortization in respect of a subloan granted by the FNDR, or failure by a subborrower to produce its own contribution to FNDR-funded projects, the Central Bank of Bolivia, being duly authorized to do so by the Ministry of Finance, will take over the subborrower's fiscal current accounts through the intermediary of the commercial bank providing correspondent services in the public sector.

B. Execution mechanisms

1. Program regulations

3.10 The rules and conditions for the execution of the program credit and institutional strengthening components are laid down in the Credit Regulations.

2. Project approval procedure

a. Project promotion and identification

3.11 These activities would be handled by the regional UCFs and the FNDR technical staff, and would be carried out jointly with the municipal governments, CRDs and cooperative public service enterprises. The external promotion would be to increase the demand generated spontaneously by the program, and should focus on identification of projects in the sectors and regions with the most pressing needs for urban investment. Project identification would improve the quality of the projects submitted, providing local leaders and technical staff with guidance in project analysis methods and in preparing applications for preinvestment funding.

b. <u>Preparation and appraisal of applications for financing</u>

3.12 The project profiles and prefeasibility studies that make up the applications would be prepared by the applicants using manuals prepared by the FNDR and under guidance by the UCFs or the Fund technical specialists. The applications would be submitted directly to the FNDR or the UCFs for preliminary review and would have to include: for investment, analysis of the project at feasibility level; for preinvestment, study at preliminary diagnosis level; and for masterplans, the detailed project profile.

3.13 Applications for financing would have to include a declaration of priority from the highest level of authority in the beneficiary institutions (the Municipal Council in the case of municipalities and the Board in the case of corporations and service enterprises).

3.14 In this stage consideration of the applications by the FNDR would be contingent upon preinvestment studies. If the loan is approved, the FNDR would contract the studies on the basis of the terms of reference prepared by the applicant. The consulting firms, selected from among those included in the FNDR's prequalification register, would be hired through the intermediary of a specialized procurement agency.

3.15 The projects and applications for financing would be evaluated from the technical, environmental, financial, socioeconomic and institutional standpoints by the FNDR, which would issue its report and conclusions regarding the qualification of the subborrower, guarantees required, applicable transfer system and other aspects of the operation. This report would be submitted to the FNDR Projects Committee for consideration.

c. <u>Project approval and contract signature</u>

3.16 The Projects Committee would analyze the appraisal report and approve the project or study, requesting the subborrower to prepare the pertinent final design, in the case of investments and when such design was not submitted with the feasibility study.

3.17 When the total investment amount of the project exceeds the discretionary limits, the Bank's approval must also be obtained. If it is established that the loan qualifies for transfers from the TGN or the CRD, a representative of the Finance Secretariat and one of the CRD would be asked to join the Projects Committee.

3.18 On the basis of the report and a recommendation from the Project Committee that the project be approved, the FNDR Loan Committee would approve the conditions of the financing and authorize the signing of the respective contracts.

3.19 To finalize the operation, the subborrower would sign, as appropriate, the following contracts: (i) FNDR-CRD participation;

(ii) FNDR-Subborrower financing; (iii) CRD-Subborrower-FNDR guarantee; (iv) CRD-Beneficiary Entity works transfer; and (v) Institutional Strengthening.

3. Execution, supervision and inspection of works

a. Procurement

3.20 The FNDR would hire, in accordance with Bolivian rules, the services of specialized agencies for the implementation and administration of the prequalification and selection of construction contractors and suppliers of goods and services, and of the procurement to be effected under the program. The contracts would include clauses limiting the processing time and requiring proper programming of the procurement process. The procedures to be used would be laid down in procurement regulations, which must be strictly in compliance with the relevant Bank policy (see Proposed Resolution).

3.21 The prequalification of enterprises would be organized in groups and the enterprises prequalified would be invited to submit bids for the execution of works and/or provision of services. The invitation and qualification of bids would be handled by the specialized agency authorized by the government. The FNDR, the corporation and the respective final subborrower would participate in the drafting of the terms of reference and technical specifications.

b. Supervision and inspection of works

3.22 All program-financed projects would be supervised and inspected by professionals, firms and/or technical agencies, hired expressly to verify compliance with the technical specifications, terms of reference, plans and details of works, budgets, change orders and other aspects relating to the contracts with contractors and suppliers of goods and services.

3.23 The supervisor would be responsible for reporting periodically on the progress of the works and for ensuring proper compliance with the technical specifications. The works inspector would be responsible for inspecting and verifying the work of both the contractor and supervisor. He would analyze the reports submitted by the supervisor, make such comments as are called for on them and recommend their approval, make observations on them, or reject them. The FNDR would specify minimum requirements as to qualifications and experience to be met by the inspector and would approve his hiring.

3.24 The UCF would be responsible for control and monitoring of the project, verifying that physical and financial progress are in accordance with the execution schedule for the project. It would

also verify compliance with the conditions laid down for the operating phase of the project, through full repayment of the debt.

3.25 The FNDR, through its Operations Control Division, would perform: (i) selective control and monitoring of projects; (ii) periodic inspections of the other projects (iii) control of compliance with the contractual conditions between the FNDR and the subborrowers; and (iv) control of compliance with the conditions laid down for the operating phase of the projects financed. The internal auditing process of the FNDR will be strengthened to enable it to verify the performance of these functions (see Recommendations).

3.26 The FNDR would hire a management audit firm that would make six-monthly audits of the administration of PRODURSA II, verifying that the monitoring performed by the FNDR and the different project supervision professionals is efficient and that the project is progressing according to plan.

4. Terms and conditions of project financing

3.27 The repayment and grace periods would be based on the economic and financial analysis made, the technical characteristics of the project, and the analysis of the subborrower's financial position, within the following limits:

a. Investment loans: maximum term of fifteen (15) years, including a grace period of up to four (4) years. In general, the grace period would cover the construction period plus six (6) months. In no case may the amortization period exceed the useful life of the good or work financed.

b. Preinvestment loans: maximum term of five (5) years, including a grace period of up to one year. The loans considered contingent would be repaid over the same period as is allowed for the investment loan for the project under study. A contingency fee equivalent to 10% of the total amount of the study would be charged.

c. Institutional strengthening: for property records and institutional support connected with investment projects, the loans would be repaid in the manner set for the latter. The local contribution put up by the subborrower would be at least 20% of the total cost of a project.

3.28 The loans would be denominated in U.S. dollars and disbursed in that currency and also in bolivianos at the official selling exchange rate on the disbursement date. This denomination condition is a change compared with PRODURSA I, in which the subloans were in national currency with value maintenance, which obliged the FNDR to bear the exchange risk.

3.29 The interest rate would be variable during the repayment period, the rate applied being the average of the effective borrowing rate of Bolivian banks for U.S. dollar operations. In addition to the interest rate, a commitment fee equivalent to 1% p.a. on the undisbursed amount of the loan would be payable.

5. Limits and allocation criteria

a. Subloan ceilings

3.30 The maximum and minimum figures for financing per project with PRODURSA II resources would be the same as in PRODURSA I:

Type of Financing	Maximum (US$)	Minimum (US$)
Investment and property records projects	8,000,000	200,000
Preinvestment studies	500,000	10,000
Institutional support components in investment projects	500,000	10,000

b. Discretionary approval limits

3.31 The FNDR would be able to approve financings without need for prior Bank approval in accordance with the following sector limits, which are the same as for PRODURSA I: (i) water and sewerage, storm drainage, channeling and solid waste (US$3 million); (ii) roads and bridges (US$4 million); bus/train stations, markets, electric energy (US$2.5 million); property records (US$3.5 million); and (iii) preinvestment and institutional support (US$500,000).

c. Ceiling per region

3.32 To avoid excessive regional concentration of program resources, a goal would be set to the effect that no more than 60% of financings should be for the regions forming the country's central axis (departments of La Paz, Santa Cruz and Cochabamba). This goal could be revised in mutual agreement with the Bank as the operation progresses.

d. Property record requirements for investment projects

3.33 During the first year of program execution, the FNDR will submit to the Bank, in accordance with the terms previously agreed upon with the Bank: (a) the plans and timetables for establishment of the municipal property records in the cities of La Paz, Cochabamba and Santa Cruz; (b) copies of the consulting contracts signed for the execution of those plans; and (c) the preinvestment studies for the urban property records in the other department capitals and intermediate cities with more than 30,000 inhabitants. Beginning with the second year and throughout program execution, the FNDR will submit to the Bank, in accordance with the terms previously agreed upon with the Bank, an annual report showing adherence to

the aforementioned plans and timetables, in the cities of La Paz, Cochabamba and Santa Cruz.

3.34 During the second year of program execution, the FNDR will submit to the Bank, in accordance with the terms previously agreed upon with the Bank: (a) the plans and timetables for establishment of the municipal property records in the other department capitals and intermediate cities with more than 30,000 inhabitants; and (b) copies of the consulting contracts signed for the execution of those plans. Beginning with the third year and throughout program execution, the FNDR will submit to the Bank, in accordance with the terms previously agreed upon with the Bank, an annual report showing adherence to the plans and timetables referred to in paragraph 3.33 of this document.

C. Operation and maintenance of services

3.35 Operation of the services financed by PRODURSA II, for which prices and tariffs are charged, would be the responsibility of cooperatives, public enterprises, mixed corporations or autonomous municipal services. Only when the service or facility is operated or maintained with funds from taxes or other indirect charges, is not attractive to the private sector, or is small in scale, may the municipality be the operator. In no case may the CRDs assume responsibility for operation and maintenance, or set up subsidiary bodies for this purpose.

3.36 Operation and maintenance of water and sewerage systems will be the responsibility of the respective municipal undertakings or cooperatives. For the case of smaller communities which do not have sufficient capacity to perform all the functions involved in system maintenance, tripartite agreements have been concluded between the FNDR, the local entity and the respective CRD, to contract certain services from larger undertakings or cooperatives or from specialized private enterprises. Under these agreements the CRDs will be required to perform one of their main functions, i.e. the provision of technical and administrative advisory services to local entities and the supervision of water quality control. In addition, the proposed institutional strengthening program includes a set of actions aimed at improving local entities' capacity to perform their respective functions.

3.37 In the case of the urban cleansing projects, the decentralized municipal corporations that are being set up in each of the department capitals will contract the sweeping, collection and final disposal work to qualified private enterprises. To this end detailed contracts have been drawn up spelling out the parties' duties and responsibilities, including those relating to maintenance of the facilities and equipment that will be leased to the contractor by the municipality. Certain municipalities already have experience in contracting urban cleansing services out to private operators.

3.38 When the FNDR so determines, on grounds of the magnitude of the work, the nature of the service, or deficiencies on the part of the subborrower, the respective subloan contract for the project would be required to stipulate the obligation on the part of the subborrower or operating entity to subcontract private enterprises for part or all of the operation and maintenance of the service or facility, or to make other institutional arrangements that will ensure performance of such operation and maintenance.

3.39 Subborrowers would be required to submit to the FNDR, throughout the repayment period for their debt, the preventive and corrective maintenance budget for the works and services under their responsibility, together with an annual maintenance plan and a report on the previous year, which must include the following: (i) the human, financial and physical resources needed to perform the maintenance activities; and (ii) the monitoring mechanism, defining the purpose of the inspections, and their frequency and scope (see Proposed Resolution).

D. Tariffs and other cost recovery mechanisms

3.40 To be eligible, projects for services subject to collection of charges, such as water, sewerage and electricity, must cover the cost of administration, operation and maintenance, including depreciation, as well as generating sufficient funds to cover service of the debt. If the tariff requirement set by the Bank is not met, a plan must be prepared to gradually raise the tariff concerned to the required level.

3.41 For services subject to collection of rental or leasing fees, or other direct charges (cleansing, markets, transport terminals and slaughterhouses), the rent, lease or other charge shall be sufficient to cover the amount stipulated in the tariff requirement.

3.42 In the case of services not subject to the collection of tariffs, rent or other direct charges (urban roads), the subborrower or the entity responsible for the service, if different, would be required to demonstrate that it will recover, as a minimum, by means of fees, taxes or other charges, the cost of operation and maintenance, or that its budget will enable it to cover such costs. It would further be required to demonstrate that it has the financial capacity necessary to service the loan if granted (see Proposed Resolution).

E. Execution of the institutional strengthening

3.43 The institutional strengthening activities would be closely linked with the investment programs, supporting the local entities involved in the administration and regulation of services financed by the program. The component would be designed to ensure proper administration of PRODURSA II by providing support for its

executing agencies (the FNDR and UCFs). The strengthening of the municipalities would be aimed at development and implementation of financial management instruments and administrative systems that will ensure effective operation and maintenance of public services by the operating entities concerned.

3.44 Under PRODURSA I investments were made to develop strengthening methodologies, including computerized systems and operating manuals concerning tax administration, integrated financial management systems, billing, collection and accounting systems, specifically designed for the Bolivian municipalities and public service entities, and also in methodologies for assessing environmental impacts. The results of these methodologies would be disseminated in PRODURSA II among the local entities, using private consultants. The FNDR has set up a unit for coordinating the institutional strengthening activities, which would be responsible for administration of the IDB and World Bank programs in this field. The work of the Institutional Strengthening Unit would be restricted to: (i) overall planning, coordination and supervision of the strengthening activities; (ii) negotiation with beneficiaries and signature of program participation agreements; (iii) preparation of terms of reference for hiring consultants for execution of the projects; and (iv) training and transfer of FNDR-developed technology.

3.45 To contribute to the institutional development of the water supply sector and facilitate solutions to the problems identified, it is recommended that the above-mentioned sector study (see paragraph 2.15) be contracted out within no later than six months from the date of signature of the contract (see Recommendations).

F. Execution schedule

3.46 The commitment and disbursement periods for the loan funds would be four and five years respectively (see Proposed Resolution). The following schedule was used for preparing the financial projections:

Table III-1

EXECUTION YEARS (US$ millions)							
		1st	2nd	3rd	4th	5th	Total
A.	Commitment						
	IDB	25.0	20.0	10.0	9.0	—	64.0
	Local contribution	8.0	6.0	1.0	1.0	—	16.0
	Total	33.0	26.0	11.0	10.0	—	8.0
	%	41.0	33.0	14.0	12.0	—	100.0
B.	Disbursement						
	IDB	9.0	13.0	16.0	13.0	13.0	64.0
	Local contribution	7.0	5.0	1.0	1.5	1.5	16.0
	Total	16.0	18.0	17.0	14.5	14.5	80.0
	%	20.0	23.0	21.0	18.0	18.0	100.0

G. Continuity of program

3.47 Funds from amortization and interest on the subloans granted from program resources that accumulate in excess of the amounts needed for servicing the debt and the financing of the transfers would only be usable for granting new subloans and transfers (solely with own resources) that are substantially consistent with the rules laid down in the Loan Contract under consideration and in the Credit Regulations, unless after five years from the date of the last disbursement the Bank and the borrower agree to use the recoveries for other purposes (see Proposed Resolution).

H. Bank supervision

3.48 The supervision of the program would be performed by the Bank field office in Bolivia. The Bank will specify such inspection procedures as it considers necessary to ensure the satisfactory implementation of the program (see Proposed Resolution). In addition to the ex ante analysis that the Bank would be required to perform in respect of all projects that exceed the discretionary limits specified in the Credit Regulations, the Bank will also review a random sample of at least 30% of the projects approved by the FNDR each year.

I. Outside audit

3.49 The FNDR would be subject to an outside audit performed by a firm of independent professionals acceptable to the Bank. In view of the problems that arose in PRODURSA I, the outside audit required for the program would include a management audit which, in addition to the usual financial checks, will verify adherence to the operating regulations. This audit will be conducted semiannually, in order to provide timely support for the Bank's supervisory activities.

3.50 The audits of the financial statements of the FNDR and of the program, including an opinion regarding compliance with the clauses of the loan contract, would be performed annually and throughout the execution period of the program by a firm of independent public accountants acceptable to the Bank. The FNDR would adopt the same approach for the CRDs (see Recommendations). In their turn, the FNDR and the CRDs will require outside auditing of the financial statements of the public service enterprises together with certification of compliance with contractual clauses. In the case of municipalities, the opinion of the Office of the Comptroller General of the Republic would be required.

J. Ex post evaluation of the program

3.51 The Bolivian authorities have stated their preference that an ex post evaluation clause not be included in the contract in respect of this operation, since they intend to perform for their own account an evaluation of the program following methods discussed with the Bank. It is considered that the FNDR has sufficient capacity to satisfactorily establish a monitoring and evaluation system. Since the Bank will in all probability continue financing the FNDR, and an evaluation of previous stages will be required for each new financing stage, the project team does not consider it necessary for the Bank itself to perform an ex post evaluation of this operation.

IV. THE BORROWER AND THE EXECUTING AGENCY

4.1 The borrower would be the Republic of Bolivia, which would designate the Fondo Nacional de Desarrollo Regional [National Regional Development Fund] (FNDR) as executing agency for the program. The program funds would be channeled to the final beneficiaries either directly through the FNDR or else through the Regional Development Corporations (CRDs).

A. National Regional Development Fund (FNDR)

1. Nature and objectives

4.2 The FNDR was established by Law 926 of March 25, 1987, with the aim of promoting harmonious and balanced development of all the country's regions through the financing of regional and local public investment projects; it is regulated by Supreme Decree No. 21964 of July 1, 1988, which month marked the formal commencement of its activities. The FNDR is a decentralized public agency reporting to the Office of the President of the Republic; it has juridical personality, administrative, technical and financial autonomy and its own capital and assets, and is established for an indefinite period.

2. Sources of funding

4.3 The FNDR's sources of funding are domestic and external loans, capital contributions and transfers from the TGN, and recoveries and interest received on loans granted.

3. Institutional structure

4.4 The institutional structure of the FNDR consists of its Board of Directors, which is its governing body and is made up of the President of the Republic, who is its chairman, the Executive Director, who acts as vice chairman, and three other members, all appointed by the President of the Republic.

4.5 The Executive Director is the FNDR's chief operating authority and is assisted by a Vice Director. The Fund's operating structure is made up of a Development Division, an Operations Control Division, a Finance Division, an Administration Division and a recently established Institutional Development Division, which would be responsible for the institutional strengthening component for the municipalities and the public service enterprises and cooperatives. It also has an Internal Auditor and a Legal Counsel, who report directly to the Vice Director.

4.6 The organizational structure was designed in light of the project processing cycle in the FNDR. The Development Division is responsible for identifying projects and regional demand; coordination with the Ministry of Finance for inclusion in the State Budget of projects to be financed by the Fund; technical, economic and financial appraisal of projects; and the eligibility of executing/operating entities, and of the subborrowers if they are different. The Operations Control Division handles control and monitoring of FNDR-financed operations and the processing of disbursement requests. The Finance Division is responsible for securing resources, debt control, the portfolio, treasury functions, the budget and preparation of the FNDR's financial statements. The Administration Division performs the functions connected with administration and payment of the staff, operating expenses and other activities necessary for the Fund's operation

4.7 The Internal Auditor and Legal Counsel report directly to the Executive Director and support the Director and the divisions in their particular areas. The duties of the Internal Auditor are governed by the Office of the Comptroller General of the Republic, which approves his work plans and schedules. However, the outside auditors have stated in their opinion that the FNDR should assign to this unit the means that would enable it to perform its functions adequately, so strengthening of this unit is being required for PRODURSA II (see Recommendations).

4. Personnel

4.8 The FNDR has both permanent staff and hired consultants, as set out in the following table:

Table IV-1

Units	Consultants	Professionals	Support	Total
Director's Office		2	1	3
Consulting Services Office	1	2	1	4
Auditors' Office		1		1
Legal Counsel's Office	1	1	1	3
Development Div.	14	9	3	26
Finance Div.		4	1	5
Control and Program Div.	4	3	3	10
Administration Div.	1	5	7	13
Institutional Dev. Div.	19	1	3	23
Total	40	28	20	88

4.9 The FNDR makes considerable use of consultants for the performance of its technical activities, because of its inability to pay them appropriate salaries and hire them as permanent staff. This arrangement has worked well so far. However, as part of the FNDR's plans to consolidate the training it has developed, chiefly in project appraisal and control techniques, it aims to substantially increase the proportions of permanent staff. It is accordingly studying how best to resolve the problems involved in so doing, primarily as regards the salaries that would have to be paid.

5. Outside audit

4.10 The Office of the Comptroller General of the Republic is responsible for the outside audit of the FNDR. Independent outside auditors examine and give their opinions on the FNDR's annual financial statements. These opinions are submitted to the Office of the Comptroller General of the Republic for review. The auditors' report for 1992 does not include any significant reservations that would mean constraints on the operations conducted or the data submitted by the FNDR. On the other hand, recommendations were made with respect to internal control and administrative efficiency which are being implemented by the FNDR.

6. Financial analysis

4.11 Since the start of its operations the FNDR has generated a surplus of US$1.4 million. During this period, government transfers to the Fund to cover its operating expenses totalled US$3.3 million. As of the end of 1992 the FNDR's portfolio stood at US$29.3 million, which represented an increase of 245% compared with the preceding year, being a very clear indication of the degree of progress achieved in its activities during that year.

4.12 As of December 31, 1992, the loans received by the FNDR to finance part of its portfolio aggregated US$21.5 million (of which US$17.5 million was from the Bank). The interest and fees due on the loans issued by the FNDR with these resources will increase proportionally, as indicated in the statements of earnings.

4.13 Personnel costs have risen with the FNDR's consolidation. During 1992 it hired professionals, consultants and administrative support personnel for the performance of its functions.

4.14 The FNDR's financial statements for the period 1991-92 are presented below:

Table IV-2
STATEMENTS OF EARNINGS
(In US$000s)

ITEMS	1991	1992
FINANCIAL INCOME	261	4,772
Portfolio income	133	3,691
Other income	128	1,080
FINANCE CHARGES	150	2,656
FINANCIAL MARGIN	111	2,115
SUPPLEMENTARY INCOME	1,605	490
DIFAM	1,035	188
TGN	91	60
UNDP	0	0
Other	479	243
ADMINISTRATIVE EXPENSES	807	2,193
Personnel	598	1,040
Other	210	1,153
SURPLUS (DEFICIT)	908	390

4.15 The financial projections prepared by the FNDR, which include the PRODURSA I and II financings from the Bank, IDA I and II from the World Bank, the part of the Japanese grants that the FNDR would transfer to the final beneficiaries in the credit component, and the funds generated by the application into new subloans of cash surpluses produced, indicate that by the end of 1994 there will be a sufficient financial margin (financial income less financial expenses) to cover all its administrative costs. In addition, it is estimated that by the year 2005 the FNDR would have accumulated earnings of US$74 million and would be managing a US$184-million portfolio.

4.16 In preparing the financial projections it was assumed that one percentage point of the interest rate would be paid over to the CRDs and/or UCFs as remuneration for their work for the FNDR. It was further established that by way of security margin, only 75% of the cash surpluses generated would be used for new subloans.

4.17 The following table presents the FNDR's balance sheets as of December 31 for the years 1991 and 1992.

Table IV-3
BALANCE SHEET as of Dec. 31
(In US$000s)

	1991	1992
ASSETS	21,045	31,176
Current Assets	11,121	2,257
Fixed Assets	164	396
Long-term Assets	9,760	
Portfolio	8,429	28,523
Other	1,331	
LIABILITIES AND EQUITY	21,045	31,176
LIABILITIES	17,330	25,607
Current Liabilities	637	284
Long-term Liabilities	16,692	25,323
Obligations to CRDs	3,082	3,584
IDB Loan	10,998	21,576
Other	2,613	163
EQUITY	3,716	5,569
Capital	2,678	4,228
Cumulative Earnings	1,038	1,341

4.18 In projecting the FNDR's results, the following were taken into account: (i) the differential between the interest rates applied in the IDA operations (see paragraph 4.15) – chiefly the second one (the rate is 0.75%) – and those which apply to the subloans in the projections (10% p.a. net of the fee that would be paid to the CRDs and/or UCFs); (ii) the margin on PRODURSA subloans reaches an average of 3 percentage points; (iii) utilization of US$8 million from the Japanese grants for lending purposes; and (iv) a difference between the amortization periods of the IDB and World Bank loans (between 20 and 40 years with grace periods of 5 to 10 years) and the terms applied by the FNDR in its subloans (10 to 15 years with a 3-year grace period).

7. Conclusions

4.19 The analysis indicates that if it maintains the strategy it has been following in the use of its resources and keeps its administrative expenditures under strict control, while the effectiveness of its guarantee mechanisms is confirmed in practice, the FNDR is financially viable. In addition, the experience it has gained with PRODURSA I and the other programs it manages, plus the training obtained for its personnel, together with the institutional strengthening plan for PRODURSA II and the additional control mechanisms to be applied (chiefly to ensure compliance with the Credit Regulations) are grounds for assuming that the FNDR will carry out the second phase of PRODURSA satisfactorily.

B. Regional Development Corporations (CRDs)

1. Nature and objectives

4.20 The CRDs are decentralized public entities with management autonomy, juridical personality and their own capital and assets. By delegation of the Ministry of Planning they are responsible for regional planning and coordination of actions undertaken for economic and social development purposes in each of the nine regions into which the country is divided (there is one CRD per region). The CRDs are also responsible for the financing and execution of works of regional interest, in which they coordinate their actions with the municipalities, public service enterprises and cooperatives, and private organizations and enterprises.

4.21 With a view to equipping the CRDs to act more effectively in the coordination of plans and actions in the basic sanitation sector, regional sanitation departments have been set up in each corporation. These departments are still in the process of implementation, with differing degrees of progress in each of the regions.

4.22 Although the corporations are responsible for serving the entire regions assigned to them, in practice there is a division of responsibility as regards execution of works in urban areas, which

are handled by the municipal governments. Moreover road construction works on the main highways are the responsibility of the National Roads Service.

2. Institutional structure

4.23 The governing body of a CRD is its Board of Directors, made up of the president of the corporation, who also acts as Board chairman, the department prefect, the mayor of the capital of the department, the chancellor of the local state university, a representative of the Armed Forces, a representative of the Ministry of Planning and Coordination, a representative of the Ministry of Rural and Agricultural Affairs, the president of the department's topmost civic entity, and the president of the department's Federation of Private Entrepreneurs. The corporation is administered by its president, who is designated by the President of the Republic. There is also a general manager, to whom the other area managers report. The CRDs have a staff of 5,409, of whom only 58% are permanent.

3. Sources of funding

4.24 According to the law establishing the CRDs, they have two types of sources of funding: (i) ordinary sources, i.e. oil and gas and mining royalties, taxes assigned to them by law, TGN transfers, profits, income and other resources deriving from their operations; and (ii) extraordinary sources, i.e. mainly grants and domestic and external loans.

Table IV-4
CURRENT AND CAPITAL REVENUES IN 1992
(In US$000s)

	Royalties	Revenue sharing	TGN transfers	Other revenues	Total
CORDECRUZ	20,108	12,231	141	11,876 1/	44,356
CORPEDPAZ	2,190	22,618	1,100	1,924	27,832
CORDECH	7,913	883		15,271 2/	24,067
CORDETAR	11,519	848	1,553	9,165 3/	23,085
CORDECO	1,166	7,632	2,073	3,021 4/	13,892
CORDEBENI	2,086	134	5,659	865	8,744
CORDEPO	1,666	426	1,352	7,273 5/	10,717
CORDEOR	477	1,446	1,788	5,220 6/	8,931
CORDEPANDO	993	28	4,530	798	6,349
Total	48,118	46,246	18,196	55,413	167,973

1/ Loans US$6,858. Loan recoveries US$3,374.
2/ Sale of goods US$1.526. Grants US$1.476. Loans US$2,703. Loan recoveries US$8,232.
3/ Grants US$1,111. Loans US$7,556.
4/ Grants US$1,475. Loan recoveries US$1,075.
5/ Grants US$2,119. Loans US$2,148. Loan recoveries US$2,971.
6/ Grants US$1,093. Loan recoveries US$2.096.

4.25 The greater or lesser relative degree of regional development underscores the considerable differences between corporations, resulting from the concentration of investments, availability of natural resources and their utilization.

4.26 In light of the data available for the period 1988-92 it can be stated that there are marked differences between how the CRDs are funded. The Santa Cruz corporation finances itself mainly with oil and gas royalties and tax revenue sharing. The Tarija corporation is financed chiefly by the oil and gas royalties it receives. The La Paz, Cochabamba and Oruro corporations are funded mainly by means of tax revenue sharing, while the Beni, Potosí and Pando corporations are the ones that are most dependent on TGN transfers.

4. Borrowing capacity

4.27 For the purposes of this program it is important to determine the CRDs' borrowing capacity since, in addition to receiving loans from the FNDR, they will also have to be guarantors of certain FNDR subborrowers.

4.28 The CRDs' borrowing capacity was determined on the basis of the net flows of the financial projections, which considered all revenues and all expenditures, including the investments that they would

make with their own funds and the local contributions of the loans already contracted.

4.29 The following parameters were used in the calculations: (i) its contribution would have to be 25%; (ii) the loans would be amortized over 15 years, with a 3-year grace period; (iii) the installments would be constant; and (iv) the interest rates would be 11.5% p.a.

4.30 The following table shows the incremental borrowing capacity for each year, assuming that the CRDs would use their maximum borrowing capacity each year.

Table IV-5
CRD BORROWING CAPACITY
(In US$'000s)

Corporations	1993	1994	1995	1996	1997	Total
CORDECRUZ	7,486	2,898	200	12,264	4,418	27,266
CORPEDPAZ	1,796	304	3,666	7,536	10,884	24,186
CORDECH	2,905					2,905
CORDETAR	293	1,398	1,307	1,899	2,147	7,044
CORDECO	2,180	1,985	670	1,177		6,012
CORDEBENI	141					141
CORDEPO	7,628					7,628
CORDEOR	1,260	1,895	1,043	1,314	592	6,104
CORDEPANDO	1,909	2,246	1,053	1,157	966	7,331
Total	25,598	10,726	7,939	25,347	19,007	88,617

4.31 Since the amounts shown for 1993 will probably not be fully used in that year owing to slower-than intended financing of the projects originally envisaged as part of PRODURSA II, the CRD's borrowing capacity has been set at roughly US$89 million, with US$30 million as counterpart contribution for the probable execution period of PRODURSA II, which would be sufficient to ensure their participation not only in PRODURSA II but also in other credit programs.

5. <u>Conclusions</u>

4.32 Bearing in mind that in PRODURSA II the CRDs' main role would be that of guarantor of loans granted by the FNDR and of FNDR subborrowers, it is not expected that the CRDs would have any difficulty in performing these functions.

C. Financial Credit Units (UCFs)

1. Nature and objectives

4.33 The UCFs are decentralized organs of the CRDs; they have management autonomy and their own capital and assets, but do not possess their own juridical personality. Between 1984 and 1986, with the sponsorship of the United States Agency for International Development (USAID), eight UCFs were established in the same number of departments, with the aim of creating a decentralized regional mechanism for financing private productive projects.

4.34 The UCFs submit their semiannual and annual financial statements to the Superintendency of Banks, with the opinions of their independent auditors.

2. Institutional structure

4.35 The governing body of the UCF is its Board, which is made up of two representatives of private sector associations in its constituency and three representatives of the respective CRD, one of whom acts as its president. In addition, the UCF has a manager and Appraisal and Operations departments.

3. Sources of funding

4.36 The UCFs received loans totalling US$25 million from USAID, US$10 million in grants from the government, while in addition some CRDs set up trust funds of approximately US$5 million for the UCFs in their jurisdictions, thus making the total placed in the UCFs US$40 million.

4.37 The UCFs' operating costs through the end of 1989 were financed by USAID grant funds, contributions from the CRDs and 2.6 percentage points of the interest rate charged by the corporations. To cover the administrative costs of the financings granted by PRODURSA, the CRDs receive the equivalent of one percentage point of the interest rate.

4. Conclusions

4.38 In light of the experience with the UCFs in PRODURSA I and the expertise they gained in managing the USAID program, and taking into account the powers they will be assigned in PRODURSA II, no obstacles are anticipated to their satisfactory performance of their responsibilities.

D. Municipalities

1. Nature and objectives

4.39 The municipalities are autonomous entities under public law, with recognized juridical personality and their own capital and assets; they conduct their activities in accordance with the provisions of the Organic Law on Municipalities.

2. Institutional structure

4.40 The municipal government is exercised by the mayor and the municipal councils in the case of department capitals or the municipal boards in other towns. The mayor is the executive, representative and administrative authority of the municipal government and the councils and boards are the deliberative organs.

3. Sources of funding

4.41 Municipal revenues can be ordinary or special. The former consist of the proceeds from the various municipal taxes, while the latter are made up of the profits generated by its enterprises, financial income, rentals, subsidies or transfers, grants and loans received.

4. Borrowing capacity

4.42 In PRODURSA II the municipalities will be able to apply to the FNDR directly for financings, offering their own guarantees if their financial capacity so permits (it is considered that only the municipalities of La Paz, Santa Cruz and Cochabamba would be in this position), or else the guarantee of the CRDs. They will also be able to obtain subloans through the respective CRDs, in cases where their financial indicators do not qualify them as direct subborrowers from the FNDR. This underscores the importance of calculating the municipalities' borrowing capacity.

4.43 As a first step, using the same methodology as was used to calculate the CRDs' borrowing capacity, this capacity was determined for the municipalities of La Paz, Santa Cruz, Oruro, Potosí, Tarija and Trinidad, which are submitted projects that form part of the PRODURSA II sample.

Table IV-6
MUNICIPALITY BORROWING CAPACITY
(In US$'000s)

	1993	1994	1995	1996	1997	Total
La Paz	5,087	10,903	9,073	15,916	18,219	59,198
Santa Cruz	7,083	7,332				14,415
Oruro	169	281	116	252	296	1,114
Potosí	230	304	468	511	577	2,090
Tarija	70	478	254	492	475	1,769
Trinidad	29	87	238	178	128	660
Total	12,668	19,385	10,149	17,349	19,695	79,246

4.44 As with the CRDs, it is thought that the amount shown for 1993 will not be used in that year, which means that for the execution period of PRODURSA II a borrowing capacity on the order of US$79 millions can be projected for the municipalities, plus a local contribution of US$26 million. This would be sufficient to ensure their participation in PRODURSA II, while leaving a sufficient margin for them also to participate in other programs including credit operations.

V. FEASIBILITY OF THE PROGRAM

A. <u>Feasibility of the financial intermediation mechanism</u>

5.1 The financial intermediation mechanisms proposed for PRODURSA II are similar to those used in the first stage of the program, with the difference that now, in addition to the CRDs, the final beneficiaries, depending on their financial capacity, can apply for financing from the FNDR. The financing mechanisms between the CRDs and the beneficiary entities have also been adjusted, rules and criteria having been established for the subloans and complementary transfers granted by the CRDs. Consequently, these mechanisms are considered feasible.

5.2 The guarantee arrangements would also be refined, taking into account the changes that have occurred in the Bolivian financial system with the elimination of the Banco del Estado, and to extend the application of the guarantee mechanism to the local contribution obligations of the program subborrowers.

B. Feasibility of the investments to be financed by the project

5.3 To verify the feasibility of the projects that would be financed by means of this operation, two project samples were analyzed. The first, PRODURSA I Sample, consisted of 13 projects financed by the FNDR in the transportation, channeling, water and sewerage, and urban cleansing sectors. The second, PRODURSA II Sample, is made up of nine projects proposed for financing with the new program and, in addition to the above-mentioned sectors, includes projects for urban facilities (a market and a bus terminal). The chief findings of the project team's review of the samples are set out below.

5.4 **PRODURSA I Sample.** The main conclusions drawn from the analysis of this sample were that: (i) as regards the technical aspects, in an appreciable number of projects there were deficiencies in the original engineering designs, which led to delays in construction and additional costs above the amounts of the contracts; in various cases it was necessary to introduce substantial changes into the original designs to ensure that the works would function as intended. With the steps taken by the FNDR and the executing agency the technical feasibility of the majority of the projects was assured; (ii) as regards the institutional and financial aspects, in general the required analyses were not made for the projects and neither were the conditions set that were to be complied with by the executing agency or operator in order to ensure the feasibility of the projects. This situation has led the FNDR to prepare a plan under which its subborrowers will have to take the measures required to ensure the institutional and financial feasibility of the projects. Also, in its future operations with these subborrowers the FNDR will take steps to require compliance with the agreements concluded; (iii) with regard to the economic analyses, in general it was found that the agreed methodological principles were properly applied and that the projects showed potential for a high economic return once the institutional and financial problems were resolved; and, finally (iv) regarding the environmental aspects, it was ascertained that the projects included adequate provisions for mitigating any adverse environmental impacts.

5.5 As a result of this review and in agreement with the Bank, the FNDR has taken the following steps: (i) it has increased its technical and institutional-financial personnel; (ii) it has introduced among its procedures a new stage consisting exclusively of technical review and approval of projects; and (iii) it has agreed with the Bank on new Credit Regulations that specify the eligibility requirements met more clearly. Application of these criteria will ensure that projects financed are viable and feasible from the technical, economic, institutional, financial, and environmental standpoints.

5.6 **PRODURSA II Sample.** To check the FNDR's progress regarding project quality control, and also to verify the availability of projects to be financed in the first year of execution of the program, a sample of nine prospective projects totalling US$15.6 million was examined and found to be entirely in compliance with the agreed eligibility requirements. The findings are summarized below, followed by more detailed comments on the different feasibility aspects.

Table V-1

Project	Cost US$M	PRODURSA II Project Sample 1/ (In US$ millions)			
		Technical	Economic	Inst.-Fin.	Environmental
1. Pampahasi-La Paz access road	1.24	Feasible	Feasible	Feasible	Feasible
2. Guadalquivir river bridge - Tarija	1.55	Feasible	Feasible	Feasible	Feasible
2. I. Americano tunnel - La Paz	1.72	Feasible	Feasible	Feasible	Feasible
4. Central market - Cobija	0.68	Feasible	Feasible	Feasible	Feasible
5. Bus terminal - Sta. Cruz	3.81	Feasible	Feasible	Feasible	Feasible
6. Portachuelo water & sew.-Sta. Cruz	1.82	Feasible	Feasible	Feasible 2/	Feasible
7. Urban cleansing - Potosí	1.86	Feasible	Feasible	Feasible	Feasible
8. Oruro urban cleansing - Oruro	2.01	Feasible	Feasible	Feasible	Feasible
9. Urban property records - Tarija	0.89	Feasible	Feasible	Feasible	Feasible

1/ See Annex V-2 for greater detail.
2/ Subject to implementation of an agreement regulating operation and maintenance of the project.

5.7 The technical feasibility of the sample projects was established by verifying that they had been prepared in accordance with acceptable standards and were dimensioned on the basis of realistic projections using design parameters and criteria considered adequate for the purpose. Alternatives were studied and the least-cost technical solution was adopted. The engineering, cost data and schedules for execution of the basic and complementary works were available. The executing agencies are technically qualified to execute the projects and have competent entities for handling their operation and maintenance. In light of the foregoing, the projects submitted in the sample are considered technically feasible.

5.8 The assessment of the institutional and financial feasibility of the sample projects was designed to: (i) determine whether the entity that would assume responsibility for the works or facilities resulting from the project meets the eligibility criteria laid down by the Bank; (ii) determine the capacity of the borrowers (whether borrowing directly from the Fund or from the CRDs) to assume responsibility for the project's financial requirements; (iii) identify and determine the cost recovery mechanisms to be employed; and (iv) assess the impact of the project on the enterprise or undertaking from the institutional and financial angles. To this end, financial projections were made for the

executing entities (municipalities, public service cooperatives or enterprises) that included the flows pertaining to the projects concerned. Financial feasibility was then measured in terms of resource availability for the contribution to the local counterpart for the project, for meeting debt service on the financeable part of the project debt, and as regards capacity to cover the full operating and maintenance costs. Using the analysis of these projections and the inputs from the economic appraisal, the amounts of the complementary transfers that would be needed were then determined in accordance with the PRODURSA II rules. The institutional analysis focused on the capacity of the entities that would receive the systems developed in the project to administer, operate and maintain said systems efficiently and effectively.

5.9 For the Portachuelo water and sewerage project, it is specified as a condition for confirmation of its institutional and financial feasibility that an agreement must be concluded between the municipality or cooperative and the FNDR defining the institutional framework to enable suitable administration and operation of the system, with an effective billing and collection mechanism, and setting out the tariff levels that will ensure the financial viability of the administering entity and recovery of the investment. Before the respective contracts are signed for the sewerage and urban cleansing projects, agreements would have to be concluded with the municipalities specifying the institutional arrangements that will enable proper administration and operation of the systems, allow the billing and collection mechanisms to function effectively, and setting/approving tariff levels that will ensure the financial viability of the administering/operating entities and recovery of the investment. If only the minimum tariff requirement is met, the project will have to include a plan by which the full tariff will be reached in three years.

5.10 The economic feasibility of the projects considered was established by verifying that they were least-cost technical solutions, while the road projects were subjected to a conventional economic analysis. On the basis of counts, origin and destination surveys and speed studies, models were prepared of traffic with and without the project and the breakdown of the average daily traffic into cars, mini and microbuses and trucks was established. The historical growth for each type of vehicle was projected in this way. Using estimated vehicle operating costs and trip times, in situations with and without the project, an internal rate of return was estimated for each project. An analysis of alternatives was made for the wearing surface to determine the option offering the best return, which proved to be in excess of 12% for the three projects. The SIMOP model was used for the water and sewerage project, for which all costs were included, including the in-house investments. It was established that the project's rate of return was over 12%.

5.11 The market and the proposed terminal are urban planning solutions. To ensure their success at minimum cost it is important that the merchants and the transportation companies participate in the decisions as to location, dimensioning and tariffs, which they did to a sufficient extent in these projects. In each project the dimensioning is based on present demand with provision of space for expansion. As regards costs, these were found to be reasonable in comparison with similar investments and the agreed tariffs cover the annualized investment costs plus the annual operating and maintenance costs.

5.12 The urban cleansing projects are basically urban environmental protection projects. As such, they have been rationally designed, dividing the city, for collection purposes, into large sectors in accordance with their predominant socioeconomic status and utilizing a system of collection stations for the lower-income sectors and house collection for the high-income neighborhoods. The amount and type of equipment was based on the collection system. Economic and environmental analyses were made to determine the most appropriate locations for the sanitary landfills. The size of the landfills was based on the volume required to take the trash generated over a 15-year period. In accordance with a readiness-to-pay survey, the population would be prepared to accept tariffs equivalent to the monthly cost per household estimated on the basis of the annualized investment cost plus operating and maintenance costs divided by the total number of households to be served.

C. Distributional impact

5.13 The distributive impact of the sample projects was estimated using the conventional methodology, by identifying and quantifying the net benefits to low-income groups. These benefits, as a proportion of the total benefits received by the private sector, form the distributive impact in each project. Low-income groups were defined as those whose annual per capita incomes did not exceed the low-income threshold, set by the Bank at Bs. 2,504 in March 1992.

Table V-2
DISTRIBUTIVE IMPACT
PV, US$ millions

PROJECT	COST		FLOWS TO LOW-INCOME GROUPS				FLOWS TO OTHERS		
	Invest-ment	Op. & Mt.	Transf. to UL 1/	Gross benefits	Charges	Net benefits	Gross benefits	Charges	Net benefits
Pampahasi road	1.24	0.12	0.02	0.58		0.58	1.02		1.10
Guadalquivir bridge	1.55	0.01	0.07	0.31		0.31	1.39		1.39
I. Americano tunnel	1.72	0.17	0.05	0.55		0.55	1.75		1.75
Cobija market	0.68	0.14	0.08	0.10	0.00	0.10	0.92	0.82	0.10
Sta. Cruz terminal	3.81	1.40	0.26	3.00	2.50	0.50	3.00	2.50	0.50
Portachuelo water & sewerage	1.82	0.10	0.06	0.63	0.25	0.38	0.56	0.22	0.34
Oruro cleansing 2/	2.01	3.61	0.26	3.29	3.10	0.19	2.34	2.10	0.24
Potosí cleansing 2/	1.86	2.80	0.19	2.90	2.70	0.20	1.70	1.50	0.20
Total	14.69	8.35	0.99	11.36	8.55	2.81	12.67	7.14	5.54

1/ UL = Unskilled Labor
2/ For these projects in which the benefits could not be directly quantified, they were presumed to be equal to the costs.
CDI = (0.99 + 2.81)/(0.99 + 2.81 + 5.54) = 41%

5.14 As can be seen from Table V-2, the feasible sample projects as a whole show a distributional impact coefficient of 41%. Taken individually, the coefficients for the road projects are lower, while the highest distributional impacts are posted for the urban facilities and urban cleansing projects; however, on the basis of the above analysis it is concluded that of the Bank loan of US$64 million, 41% or US$26.3 million will benefit low-income groups.

D. Environmental feasibility

5.15 The projects in the context of PRODURSA II are small and medium urban infrastructure and environmental sanitation projects. These always have positive impacts on the physical circumstances and quality of life of the communities in the project location and in its area of influence. However, certain infrastructure works by their very nature involve environmental risks during some of their construction, operation and maintenance stages.

5.16 The Environmental Management Committee has classified this program in Category III and the recommendations presented in the Environmental Summary considered by the Committee on August 10, 1993, have been followed in the design of this program.

5.17 With the aim of reducing or avoiding negative environmental impacts, and based on the experience of PRODURSA I, the FNDR

prepared a revised version of the Procedures for Environmental Quality Control in projects to be financed by PRODURSA II, which was approved by the Bank and the former National Environment Secretariat (SENMA). These procedures will form part of the Program Operating Regulations.

E. <u>Impact on women</u>

5.18 The institutional strengthening component of the program (see paragraph 2.14) will include a basic diagnostic study that will provide socioeconomic, ethnic and cultural information on low-income urban women and a proposal will be prepared for municipal policies, strategies and programs for women that includes mechanisms and instruments for their institutionalization as permanent features in the planning and executing bodies. As a complementary measure, municipal authorities and staff will be trained in the importance and scope of the municipal policies and strategies in favor of women, based on their active participation in local development and their specific needs. In addition, in the investment component (markets) the FNDR will adopt changes in the design of new markets and in remodeling schemes that will include properly equipped child-care facilities; participative management methods and training for market users (80% women) in administration, leadership and use of child-care services will also be introduced, with a resultant impact on the efficiency of the running of these services.

PRODURSA I
PROGRESS RECORDED IN FULFILLING CONDITIONS

Status	Means of Verifying Compliance	Estimated or Actual Date of Compliance	Comments
1. IN THE PROCESS OF COMPLETION a. Signature of contracts	Copy of signed contracts submitted to FBO as they are completed degree of completion to date 75%	1/31/94	- PRODURSA II will require the initial signature of contracts prior to the first disbursement - Pending those contracts which have been expanded as a result of ordered changes, as of 11/30/93
b. Land ownership and authorization of easements	- Notes issued to FBO on 6/7/93 and 7/15/93 concerning six projects affecting private property - Formal regularization of other projects in process	10/30/93	The projects are being executed with all rights-of-way released Arrangements will be made as necessary in PRODURSA II
c. Prioritization of projects by the MPC	- Note from the MPC's Directorate of Public Investment	10/15/93	Delayed by the current restructuring of the Executive Branch
d. Cost recovery 1. Water and sewerage projects	- Interinstitutional agreements stipulating the implementation of appropriate tariff systems - Tariffs established	9/30/93 Nov/93	PRODURSA II will establish approval of the tariff policy prior to approval of the loan The FNDR has developed the tariff model, approved by the MAU.

Status	Means of Verifying Compliance	Estimated or Actual Date of Compliance	Comments
2. Urban cleansing projects	- Collection by means of electric energy billing	Dec/93	The FNDR has developed the model for calculating the tariff in accordance with the conditions set forth in the Credit Regulations
	- Establishment of tariffs	Dec/93	
e. Institutional strengthening of the subborrowers			
1. Water and sewerage projects	- Plan for the administration and operation of water supply and sewerage services	May/93	PRODURSA II incorporates the institutional strengthening into the project
	- Interinstitutional agreements for transfer of the works and technical assistance signed	9/30/93	Areements have not yet been signed for the Pailas, Pailón, Minero and Viancha systems
2. Urban cleansing projects	Approved municipal cleansing companies	Oct/93	The only exceptions are El Alto and Sucre
f. Organizational viability	Concession of the operation of urban cleansing projects to the private sector	April/94	PRODURSA II includes a condition requiring the organization viability of the subborrower and beneficiary
g. Sewage disposal projects: Pailas, Pailón, Mineros and Puerto Suárez	- Alternative solution selected for Pailas, Pailón and Mineros	10/15/93	Projects will be financed in PRODURSA II, PRODEMU and FIS
	- Project presented by CORDECRUZ for Puerto Suárez	Dec/93	

Status	Means of Verifying Compliance	Estimated or Actual Date of Compliance	Comments
2. IN PROCESS Submission of documents in connection with contracts expanding financing	CO-RZ-0108.CAR/93	Oct/15/93	Owing to a change in the authorities, the signature of a number of contracts was postponed pending the appointment concerned on Oct/15/93
3. TO BE CORRECTED IN PRODURSA II Observations concerning the bidding forms made by the IDB mission in May 1993	The recommendations were analyzed and are included in the bidding forms for all PRODURSA II projects		As of the date of completion of the observations all of the public bidding under PRODURSA I were processed using bidding forms duly approved by the IDB.
4. MISCELLANEOUS PROCEDURES a. Additional program financing (local counterpart)	Proposals for subborrower institutions reformulated	10/31/93	For contracts currently in force
b. Additional clause on the retention of 10% of consultant honoraria, subject to the final report	Additional contract	11/30/93	
c. Transmittal of contracts to consultants	Copies of contracts	10/15/93	

Status	Means of Verifying Compliance	Estimated or Actual Date of Compliance	Comments
5. Recommendations of the expert consultant on costs: a. Report on the result of the inspections of completed works	Through the FBO report to be sent to OPI/OD1	Dec/31/93	Consultant submitted this report in memorandum CB-07-1993 of 5/17/93. FNDR sent several reports with its comments and clarifications. It would be necessary to evaluate whether the points raised by the consultant have been satisfactorily explained or resolved.
b. Annex to the Final Report with the results of the review of bids and change orders in respect of public bidding under the Program	Through the FBO report to be sent to OPI/OD1	Dec/31/93	According to the reprogramming of dates decided with the FNDR on Sept/29/93, the FNDR indicated to FBO that it will present its comments in late December (memorandum from the consultant CB-06-193 of 5/17/93
c. Report with general recommendations (mostly related to the bidding information)	Through the FBO report to be sent to OPI/OD1	Dec/31/93	These recommendations were communicated by the consultant to FBO in memorandum CB-08-93 of 5/1/93. According to the rescheduled dates decided on with the FNDR on Sept/29/93, the FNDR will submit its comments on Dec/31/93

Status	Means of Verifying Compliance	Estimated or Actual Date of Compliance	Comments
6. Review of contracts to amend supervision	Through the FBO report to be sent to OPI/OD1	Nov/15/93	According to the rescheduled dates decided on with the FNDR on Sept/20/93, this information, as in the case of the review of the amending contracts, will be completed in mid-November 1993.
7. Final reports of the individual consultants who have completed their work	Through the FBO report to be sent to OPI/OD1	Nov/15/93	According to the rescheduled dates decided on with the FNDR on Sept/29/93, this information will be completed in mid-November 1993
8. Aspects not included in the FNDR and FBO report as completed or in the process of completion, and which were not completed in accordance with the review originally conducted by FBO: legal capacity (6 cases), technical feasibility (6 cases), economic feasibility (5 cases), use of financing (1 case)	Through the FBO report to be sent to OPI/OD1	Nov/15/93	Pending only 4 evaluations on technical feasibility and 1 on economic feasibility. The FNDR will provide information on this matter on Nov/15/93

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Appendix I

PROPOSED RESOLUTION

BOLIVIA. LOAN /OC-BO TO THE REPUBLIC OF BOLIVIA

CREDIT PROGRAM FOR URBAN DEVELOPMENT AND SANITATION (PRODURSA II)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Bolivia, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Global Credit Program for Urban Development and Sanitation (PRODURSA II), hereinafter referred to as the "Program". This financing shall be subject substantially to the following conditions:

1. Amount and currencies: Up to US$57,100,000, or its equivalent in other currencies, except that of the Republic of Bolivia, which are part of the ordinary capital resources of the Bank, to pay for goods and services acquired through international competition in the member countries of the Bank and for such other purposes as may be specified in the loan contract. Payments of amortization and interest shall be made in the currency or currencies specified by the Bank, in a quantity equivalent to the corresponding amount owed, calculated in units of account in terms of dollars of the United States of America, in accordance with provisions to be included in the loan contract.

2. Source of funds: The ordinary capital resources of the Bank.

3. Guarantee: The general responsibility of the Borrower.

4. Credit fee: 0.75% per annum on the undisbursed portion of the financing, commencing to accrue 60 days after the date of the loan contract and payable in dollars of the United States of America on the same dates as the interest.

5. Amortization: The Borrower shall amortize the loan in a period of 20 years from the date of the loan contract, by means of semiannual, consecutive and, insofar as possible, equal installments. The first installment shall be paid on the first interest payment date, six months after the date scheduled for the last disbursement of the financing.

6. Interest: The Borrower shall pay interest semiannually on the daily outstanding balances of the loan. The first payment shall be made six months after the date of the loan contract. The Bank shall determine the rates of interest to be applied during the life of the loan, in accordance with the lending rate policy of the Bank.

7. Commitment and disbursement: The term for commitment of the financing resources shall expire four years after the effective date of the loan contract, and the term for disbursement of the financing shall expire five years after that same date.

8. Special conditions:

(a) The Program shall be executed and the resources of the loan utilized in their entirety by the Borrower through the Fondo Nacional de Desarrollo Regional, hereinafter referred to as the "FNDR" or the "Executing Agency", with the participation of the Corporaciones Regionales de Desarrollo, hereinafter referred to as the "CRDs". The provisions for the Borrower and the Executing Agency established in Article 5.01 (d) of the General Conditions are applicable to these CRDs.

(b) The resources of the loan, together with the resources of loan /SF-BO, shall be used to participate in the execution of a program the total cost of which is estimated at the equivalent of US$80,000,000. Consequently, the loan contracts shall contain the appropriate provisions to ensure that such additional resources as may be necessary, in addition to the two loans, for the complete execution of the Program shall be duly provided, in an amount estimated at the equivalent of US$16,000,000, in accordance with a schedule of investments satisfactory to the Bank.

(c) Prior to the first disbursement of the financing, the Borrower shall present to the satisfaction of the Bank evidence that:

(1) The FNDR has put into effect the Program's Credit Regulations and adopted the model subloan agreements in accordance with the terms previously agreed upon with the Bank.

(2) It has signed the subsidiary agreement with the FNDR transferring to the latter the resources of the financing and local counterpart for execution of the Program in accordance with the terms previously agreed upon with the Bank. Under this agreement, the Borrower shall undertake to transfer to the FNDR the resources of the local counterpart in an amount of at least US$16,000,000 equivalent. Such amount may include: a grant from the Government of Japan for the

purchase of machinery and equipment for urban sanitation projects in an amount of up to US$13,000,000; contributions from the final beneficiaries of the projects in the amount of US$2,100,000 equivalent; and the FNDR's own contribution to the institutional strengthening component in the amount of US$900,000 equivalent.

(3) The FNDR has signed with the Banco Central de Bolivia an agreement, duly authorized by the Ministry of Finance, concerning guarantees on the current accounts of public entities receiving credit under the Program, in accordance with the terms previously agreed upon with the Bank.

(d) The beneficiaries of the credits shall be charged on account of interest, commissions, insurance or any other charge the annual rate or rates which, being consonant with the legislation and policies on interest rates of the country, are compatible with the Bank's policy on interest rates in this type of financing.

(e) The resources of the financing shall not be used to grant credits for: (i) general and administrative expenditures of the beneficiaries; (ii) working capital, except when imported technical inputs or inputs with a high imported content are involved; (iii) the purchase of real property; (iv) debt refinancing; and (v) the purchase of shares.

(f) In the acquisition of machinery, equipment, or other goods for the projects financed with the credits granted under the Program, and in the awarding of construction contracts, public entities shall follow the system of public bidding in each case in which the value of such acquisitions exceeds the equivalent of US$250,000 or the value of such contracts for the execution of works exceeds the equivalent of US$1,000,000. The bidding shall be subject to the procedures to be appended as an annex to the loan contract.

(g) In cases where financing is provided for public utility projects with tariff-based cost recovery mechanisms, the Borrower shall undertake to have included in the subloan agreements the obligation for the beneficiary agencies of the Program to adopt appropriate measures in order that the rates charged produce revenues at least sufficient to cover all operating expenses of the respective system, including those related to administration, operation, maintenance and depreciation of the restated fixed assets. If the application of the foregoing does not generate sufficient resources to cover the timely service of all of the obligations of the respective beneficiary, the necessary measures, including rate increases, shall be taken to obtain the additional resources to achieve that purpose.

(h) The Borrower shall take appropriate measures acceptable to the Bank in order that the rates for the sale of electric energy: (1) produce revenues at least sufficient to cover all of the operating expenses of the respective system, including those related to administration, operation, maintenance and depreciation; and (2) yield a reasonable return on the net utility investment in the systems. If the application of the foregoing does not generate sufficient resources to cover timely service of all the obligations of the respective beneficiary, the Borrower shall take the necessary measures, including rate increases, to obtain the additional resources required to achieve that purpose.

(i) In the case of projects relating to services not subject to the payment of tariffs, the subloan agreements between the FNDR and recipients of credit under the Program shall contain conditions ensuring, so far as possible, the recovery of operating and maintenance expenses and coverage of the entity's debt service obligations by means of fees, rent, taxes, contributions or other charges.

(j) The funds arising from recoveries under credits granted with the resources of the Program may, to the extent they accumulate in excess of the amounts needed for service of the loan, only be used for the granting of new credits conforming substantially to the rules laid down in the loan contract and in the Credit Regulations. Five years after the date of the last disbursement, the Bank and the Borrower may agree upon another use for recoveries that does not depart from the basic objectives of the financing, or agree to reduce the period of validity of this obligation.

(k) The Bank shall establish such inspection procedures as it deems necessary to assure the satisfactory execution of the Program, and the Borrower shall extend all cooperation which is required for the most effective accomplishment of this purpose. From the amount of the financing, the sum of US$571,000 shall be allocated for credit to the income accounts of the Bank to meet expenses of general inspection and supervision.

PROPOSED RESOLUTION

BOLIVIA. LOAN /SF-BO TO THE REPUBLIC OF BOLIVIA

CREDIT PROGRAM FOR URBAN DEVELOPMENT AND SANITATION (PRODURSA II)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Bolivia, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Global Credit Program for Urban Development and Sanitation (PRODURSA II), hereinafter referred to as the "Program". This financing shall be subject substantially to the following conditions:

1. Amount and currencies: Up to US$6,900,000, or its equivalent in other currencies, except that of the Republic of Bolivia, which are part of the Fund for Special Operations of the Bank, to pay for goods and services acquired through international competition in the member countries of the Bank and for such other purposes as may be specified in the loan contract. Payments of amortization and interest shall be made in the currencies disbursed.

2. Source of funds: The Fund for Special Operations.

3. Guarantee: The general responsibility of the Borrower.

4. Credit fee: 0.50% per annum on the undisbursed portion of the financing, commencing to accrue 12 months after the date of this resolution and payable in dollars of the United States of America on the same dates as the interest.

5. Amortization: The Borrower shall amortize the loan in a period of 40 years from the date of the loan contract, by means of 60 semiannual, consecutive and, insofar as possible, equal installments. The first installment shall be paid 10½ years after the date of the loan contract.

6. Interest: One percent per annum during the first 10 years after the date of the loan contract and 2% thereafter. The interest shall be paid semiannually on the daily outstanding

balances of the loan. The first payment shall be made six months after the date of the loan contract.

7. Commitment and disbursement: The term for commitment of the financing resources shall expire four years after the effective date of the loan contract, and the term for disbursement of the financing shall expire five years after that same date.

8. Special conditions:

(a) The Program shall be executed and the resources of the loan utilized in their entirety by the Borrower through the Fondo Nacional de Desarrollo Regional, hereinafter referred to as the "FNDR" or the "Executing Agency", with the participation of the Corporaciones Regionales de Desarrollo, hereinafter referred to as the "CRDs". The provisions for the Borrower and the Executing Agency established in Article 5.01 (d) of the General Conditions are applicable to these CRDs.

(b) The resources of the loan, together with the resources of loan /OC-BO, shall be used to participate in the execution of a program the total cost of which is estimated at the equivalent of US$80,000,000. Consequently, the loan contracts shall contain the appropriate provisions to ensure that such additional resources as may be necessary, in addition to the two loans, for the complete execution of the Program shall be duly provided, in an amount estimated at the equivalent of US$16,000,000, in accordance with a schedule of investments satisfactory to the Bank.

(c) Prior to the first disbursement of the financing, the Borrower shall present to the satisfaction of the Bank evidence that:

(1) The FNDR has put into effect the Program's Credit Regulations and adopted the model subloan agreements in accordance with the terms previously agreed upon with the Bank.

(2) It has signed the subsidiary agreement with the FNDR transferring to the latter the resources of the financing and local counterpart to the FNDR for execution of the Program in accordance with the terms previously agreed upon with the Bank. Under this agreement, the Borrower shall undertake to transfer to the FNDR the resources of the local counterpart in an amount of at least US$16,000,000 equivalent. Such amount may include: a grant from the Government of Japan for the purchase of machinery and equipment for urban sanitation projects in an amount of up to US$13,000,000; contributions from the final beneficiaries of the projects in the amount of at

least US$2,100,000 equivalent; and the FNDR's own contribution to the institutional strengthening component in the amount of US$900,000 equivalent.

(3) The FNDR has signed with the Banco Central de Bolivia an agreement, duly authorized by the Ministry of Finance, concerning guarantees on the current accounts of public entities receiving credit under the Program, in accordance with the terms previously agreed upon with the Bank.

(d) The beneficiaries of the credits shall be charged on account of interest, commissions, insurance or any other charge the annual rate or rates which, being consonant with the legislation and policies on interest rates of the country, are compatible with the Bank's policy on interest rates in this type of financing.

(e) The resources of the financing shall not be used to grant credits for: (i) general and administrative expenditures of the beneficiaries; (ii) working capital, except when imported technical inputs or inputs with a high imported content are involved; (iii) the purchase of real property; (iv) debt refinancing; and (v) the purchase of shares.

(f) In the acquisition of machinery, equipment, or other goods for the projects financed with the credits granted under the Program, and in the awarding of construction contracts, public entities shall follow the system of public bidding in each case in which the value of such acquisitions exceeds the equivalent of US$250,000 or the value of such contracts for the execution of works exceeds the equivalent of US$1,000,000. The bidding shall be subject to the procedures to be appended as an annex to the loan contract.

(g) In cases where financing is provided for public utility projects with tariff-based cost recovery mechanisms, the Borrower shall undertake to have included in the subloan agreements the obligation for the beneficiary agencies of the Program to adopt appropriate measures in order that the rates charged produce revenues at least sufficient to cover all operating expenses of the respective system, including those related to administration, operation, maintenance and depreciation of the restated fixed assets. If the application of the foregoing does not generate sufficient resources to cover the timely service of all of the obligations of the respective beneficiary, the necessary measures, including rate increases, shall be taken to obtain the additional resources to achieve that purpose.

(h) The Borrower shall take appropriate measures acceptable to the Bank in order that the rates for the sale of electric energy: (1) produce revenues at least sufficient to cover

all of the operating expenses of the respective system, including those related to administration, operation, maintenance and depreciation; and (2) yield a reasonable return on the net utility investment in the systems. If the application of the foregoing does not generate sufficient resources to cover timely service of all the obligations of the respective beneficiary, the Borrower shall take the necessary measures, including rate increases, to obtain the additional resources required to achieve that purpose.

(i) In the case of projects relating to services not subject to the payment of tariffs, the subloan agreements between the FNDR and recipients of credit under the Program shall contain conditions ensuring, so far as possible, the recovery of operating and maintenance expenses and coverage of the entity's debt service obligations by means of fees, rent, taxes, contributions or other charges.

(j) The funds arising from recoveries under credits granted with the resources of the Program may, to the extent they accumulate in excess of the amounts needed for service of the loan, only be used for the granting of new credits conforming substantially to the rules laid down in the loan contract and in the Credit Regulations. Five years after the date of the last disbursement, the Bank and the Borrower may agree upon another use for recoveries that does not depart from the basic objectives of the financing, or agree to reduce the period of validity of this obligation.

(k) The Bank shall establish such inspection procedures as it deems necessary to assure the satisfactory execution of the Program, and the Borrower shall extend all cooperation which is required for the most effective accomplishment of this purpose. From the amount of the financing, the sum of US$69,000 shall be allocated for credit to the income accounts of the Bank to meet expenses of general inspection and supervision.

RECOMMENDATIONS

A. It is recommended that the following conditions, to be met to the Bank's satisfaction, be included in the loan contracts in addition to those set forth in the proposed resolutions:

1. Unless the parties agree otherwise, prior to issuing each call for public bids, or if there is no need for public bids, prior to the acquisition of the goods or the initiation of the works, the Borrower, through the Executing Agency, shall submit to the Bank: (a) the general plans, specifications, budgets, and other documents needed for the acquisition or construction and, where applicable, the specific requirements and other documents needed for the call for bids; and (b) in the case of works, evidence of the legal possession, easements or other pertinent rights to the lands required for their construction.

2. Prior to initiating the public bidding for the civil works for each project in the urban sanitation subcomponent, it shall be required that:

   (a) The FNDR submit to the Bank the incorporation papers and bylaws of the municipal urban sanitation firms to be entrusted with contracting the operational work included in the subcomponent.

   (b) The FNDR submit to the Bank the municipal ordinances establishing the rates for urban sanitation services and the respective collection system to be adopted in the respective municipalities.

   (c) The FNDR submit to the Bank the municipal ordinances approving the terms for the contracting of urban sanitation services by municipal authorities.

3. Prior to initiating the public bidding on civil works for each project in the water and sewerage subcomponent, it shall be required that:

   (a) The FNDR submit to the Bank the municipal ordinances or pertinent legal provisions establishing the rates referred to in condition 8 (g) of Appendices I and II.

   (b) The FNDR submit to the Bank the municipal ordinances or pertinent legal provisions authorizing the contracting of specialized firms for the management, operation and maintenance of the services.

4. Program financing for a single project, including credit and transfers, may not exceed ten percent (10%) of the total amount of the Program.

5. During the execution of the Program, the Borrower and the Executing Agency, on the one hand, and the Bank, on the other hand, shall periodically review the interest rates which are applied to subloans. The Borrower and the Executing Agency, if necessary, may take appropriate measures, consistent with the country's economic policies, to harmonize the interest rates for the subloans with the policy objective pursued by the Bank.

6. At the end of the second year from the effective date of the loan contract, the Borrower, through the Executing Agency, shall submit to the Bank for approval a midterm evaluation report on the results of the Program, including the selection of projects and beneficiary entities requiring evaluation, as well as a detailed analysis of such problems as may have affected the execution of the Program.

7. The financial statements of the Program, during its execution, and those of the Executing Agency, during the life of the loan contract, shall be presented annually to the Bank after having been audited by an independent public accounting firm acceptable to the Bank.

8. Within one year from the effective date of the loan contract, the FNDR shall publish the environmental quality control report on the projects and shall distribute it to the credit recipients under the Program and to such private and public entities as may request it.

9. During the first year of program execution, the FNDR shall organize and conduct a course on environmental management, at least five (5) hours in duration, intended for the FNDR's technical personnel, with the aim of complying with the guidelines established in the environmental quality control report.

10. During the first year of program execution, the FNDR shall submit to the Bank, in accordance with the terms previously agreed upon with the Bank: (a) the plans and timetables for the establishment of municipal urban property records in the cities of La Paz, Cochabamba and Santa Cruz; (b) a copy of the consulting contracts signed for the execution of the aforementioned plans and (c) the preinvestment studies for the urban property records in the other department capitals and intermediate cities with more than 30,000 inhabitants.

11. Beginning with the second year and throughout program execution, the FNDR shall submit to the Bank, in accordance with the terms previously agreed upon with the Bank, an annual report on

adherence to the plans and timetables referred to in recommendation A.10(a), in the cities of La Paz, Cochabamba and Santa Cruz.

12. During the second year of program execution, the FNDR shall submit to the Bank, in accordance with the terms previously agreed upon with the Bank: (a) the plans and timetables for establishing the municipal urban property records in the other department capitals different to those aforementioned in recommendation A.10(a) and in intermediate cities with more than 30,000 inhabitants and (b) a copy of the consulting contracts signed for the execution of the aforementioned plans.

13. Beginning with the third year and throughout program execution, the FNDR shall submit to the Bank, in accordance with the terms previously agreed upon with the Bank, an annual report on adherence to the plans and timetables referred to in recommendation A.12(a) of this document.

14. Six (6) months after the effective date of the loan contract, the FNDR shall engage an auditing firm to conduct semiannual audits of the Program's administration in accordance with the terms previously agreed upon with the Bank.

15. Six (6) months after the effective date of the loan contract, the FNDR shall submit to the Bank an evaluation report on the sanitation sector in Bolivia, in accordance with the terms previously agreed upon with the Bank.

16. Within six (6) months from the effective date of the loan contract, the FNDR shall submit evidence to the Bank that it has strengthened its Internal Auditing Division so that it can assume the following functions: (a) selective project monitoring; (b) periodic inspections of the projects; (c) monitoring of the contractual conditions stipulated between the FNDR and the recipients of credit; and (d) monitoring of compliance with the conditions established for the operational phase of the projects financed.

17. The Borrower, shall: (i) assure that the works involved in the Program will be adequately maintained in accordance with generally accepted technical standards; and (ii) submit to the Bank within the first quarter of each calendar year, for 10 years following completion of the first of the works of the Program, a report on the status of such works and the annual maintenance plan for that year. If the inspections conducted by the Bank, or reports it receives, reveal that actual maintenance is below the agreed-upon levels, the Borrower and the Executing Agency shall take appropriate action to have the deficiencies fully corrected. The aforesaid obligation shall be included in subloan agreements

entered into by the FNDR and the parties receiving credit under the Program.

18. Prior to approval of the projects in which use is made of cost efficiency parameters in accordance with the Credit Regulations of the Program, the FNDR shall submit to the satisfaction of the Bank the studies and calculations of the parameters for cost efficiency that must be used.

B. The loan contracts shall contain an annex substantially similar to Appendix IV which follows ("The Program").

THE PROGRAM

Annex A to the Loan Contract

I. Objective

1.01. The objective of the Program is to support municipal and regional development by: (a) financing urban infrastructure and services; (b) strengthening the financial and management capacity of municipalities and local public utilities for the delivery of services; and (c) strengthening and consolidating the institutional and financial intermediary mechanisms promoting the decentralization of public services.

II. Description

2.01 In order to accomplish the objective described above, the Program includes the execution of: (i) a component to finance investment projects of areas of basic sanitation, infrastructure and urban public services; (ii) an institutional strengthening component connected primarily with investment projects financed by the program to strengthen the institutional capacity of the Fondo Nacional de Desarrollo Regional (FNDR), the Unidades Crediticias Financieras (UCF), the municipal authorities and other local public utilities responsible for executing and operating investment projects under the program. This component also includes a pilot program for the privatization of municipal public services, an institutional strengthening program for property registers and a study on the participation of women in municipal administration.

2.02 The subloans issued with program funds shall be used to finance projects in the following sectors: (i) basic sanitation, water and sewerage; (ii) canalization and drainage; (iii) solid waste; (iv) urban roads; (v) surface transportation terminals; (vi) public lighting; (vii) public markets; (viii) slaughter houses; (ix) property registers; (x) preinvestment studies. During program execution and after obtaining agreement from the Bank, the Executing Agency may propose the inclusion of other sectors meeting the eligibility requirements of the Program.

2.03 The projects financed under the Program shall be technically, environmentally, economically, legally, administratively and financially viable in accordance with the provisions of the Program's Credit Regulations.

III. Program cost and financing plan

3.01 The estimated cost of the Program is the equivalent of US$80,000,000 in accordance with the following investment categories and sources of financing:

TOTAL COST AND SOURCES OF FINANCING
(in millions of US$ equivalent)

COMPONENTS	IDB			LOCAL COUNTERPART		TOTAL	%
	FSO	OC	TOTAL	SUBBOR-ROWER	TGN		
Line of credit	3.0	56.6	59.5	2.1	13.0	74.6	93.5
Institutional strengthening	3.9	-	3.9	0.9*	-	4.8	5.8
Inspection and supervision	0.07	0.6	0.6	-		0.6	0.7
Total	6.9	57.1	64.0	16.0		80.0	100
%	8.6	71.4	80.0	20.0		100	

* FNDR

IV. Procurement

4.01 (a) When goods to be procured or services to be contracted for the Program, including those related to transportation of insurance, are to be financed in whole or in part with foreign exchange from the financing, the procedures and specific requirements for calls for bids or other forms of contracting shall permit the unrestricted participation of suppliers of goods and services from the member countries of the Bank. Consequently, no conditions that would preclude or restrict the offering of goods of the participation of contractors from such countries shall be established in such procedures or specific requirements.

(b) When sources of credit other than the resources of the financing or the local counterpart are to be used, the Borrower may agree with the creditor upon the procurement procedure to be followed. However, upon the Bank's request, the Borrower shall demonstrate the reasonableness of both the price agreed upon or paid for the purchase of the goods and services and the financial terms and conditions of the credits. The Borrower shall also demonstrate that the quality of the goods is in conformity with the technical requirements of the Program.

(c) For the purposes of the provisions set forth in Annex B, Section 3.18, "Tender Procedures", of the loan contract, the system of prequalification or the registry of bidders shall be

used in tender procedures for the execution of works the value of which exceeds US$1,000,000 equivalent.

V. Consulting services

5.01 In the selection and contracting of consulting services to be financed in whole or in part with resources from the financing: (a) the procedures agreed upon with the Bank shall apply, and (b) no conditions or stipulations may be established that would restrict or preclude the participation of consultants from the Bank's member countries.

5.02 With respect to consulting services financed with local counterpart resources, the Bank reserves the right to review and approve, before the Borrower proceeds with the corresponding hire, the names and background of the firms or individual consultants selected, their terms of reference, and the agreed fees. This provision does not apply when resources from suppliers' credits are used for such contracts.

VI. Maintenance

6.01 The purpose of maintenance is to preserve the works included in the Program in the operating condition exhibited upon their completion, at a level consistent with the service they are to provide.

6.02 The first annual maintenance plan shall correspond to the fiscal year subsequent to the year of start up of operations on the first of the Program works.

6.03 The annual maintenance plan shall include: (i) details concerning the entity responsible for maintenance, the personnel assigned and the number, type, and condition of the maintenance equipment; (ii) the location, size, and condition of the repair, storage and maintenance facilities; (iii) information concerning the resources to be allocated for maintenance during the current year and the amount to be allocated in the budget during the following year; and (iv) a report on the status of maintenance, based on the sufficiency evaluation system established by the Borrower.

VII. Tariffs

7.01 For the purposes of condition 8 (h) in appendices I and II, reasonable profitability of the systems shall mean the equivalent of nine percent (9%) annually on the net utility investment.