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Loan Committee: Bolivia - General

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1058258

A1990-229 Other #: 10 Box # 213274B

Bolivia - General - Loan Committee Project File

~~Mr. Stern,~~

Re: Bolivia - Credit 940-BO (FONEM)

I recommend that you approve the attached request for Closing Date extension, given the nature of the project and the country circumstances. I am, however, surprised that the Region is only getting around to this now (six months after the current Closing Date) -

→ AM

OFFICE MEMORANDUM

DATE December 18, 1986

TO Mr. E. Stern, SVPOP
Thru' Mr. A. D. Knox, LCNVP

FROM R. Picciotto, LCPDR *AM*

EXTENSION 75906 *9*

SUBJECT BOLIVIA--Credit 940-B0
Fondo Nacional de Exploracion Minera (FONEM)
Request for Extension of Closing Date of Credit

OK
ES
12/23/86

1. I would like to request your approval for an extension of the closing date for the reference Credit to December 31, 1987. A Credit for US\$7.5 million for the above Project was approved by the Board in June 1979 and became effective in January 1980. The original closing date of June 30, 1983, has been extended twice, first to December 31, 1985 and subsequently to June 30, 1986. The proposed continued financing implies another one-and-a-half year extension of a critical Project activity. We consider this extension justified and critical to our assistance strategy in Bolivia specifically in promoting non-tin mining exploration in pursuit of export diversification. Justification for this proposed action is given below.

Background

2. The objective of FONEM is the promotion of mining activity through the financing of exploration, development and feasibility studies (reserve definition) within Bolivia. Repayments for successful projects are paid through an 8% gross royalty on production, to cover the interest on loans (10% in US\$ terms) and principal repayments up to a maximum of 150% of the original credit. The miner can deduct royalty payments to the State from its repayments to FONEM. FONEM can, therefore, be regarded as a development agency providing relatively low cost financing for the promotion of mining activities by the private sector.

3. Project implementation up to 1985 was extremely slow, due to the adverse effects of the general unstable economic conditions in Bolivia, the impact of exchange rate distortions and high inflation on costs and disbursements, start-up difficulties, and cumbersome procurement procedures. In order to improve the performance, the Bank/IDA and FONEM agreed on a restructuring of the Project in June 1985. Unfortunately, by the time the Project amendments became effective, Bank/IDA disbursements to Bolivia were suspended for about six months. Out of the US\$7.5 million Credit, US\$1.7 million have been disbursed as of December 1, 1986.

Government Request

4. The Government in a letter dated September 12, 1986, from President Paz Estenssoro requested the Bank to consider another extension of the closing date until December 31, 1987. The main argument is that

closure of the Credit will result in the termination of the exploration activities presently underway as no alternative finance sources are available to FONEM to fill the financing gap. This would mean that the cost incurred so far on nine active sub-projects would be wasted and not recovered. In order to complete these nine sub-projects, it is estimated that an additional US\$2.2 million will be required up to December 1987.

Recommendation

5. A mining mission which recently visited Bolivia reviewed the sub-projects under execution and concluded that they showed good future development potential and are worth continuing. Moreover, at this critical time for the Bolivian mining industry this is the main new mine development work in the country being carried out at a reasonable level. Quality of the work undertaken is further enhanced by German technical assistance being provided to FONEM which is scheduled to continue until 1989. We are confident that these implementation arrangements, and the experience gained so far by FONEM are conducive to a satisfactory completion of the projects under execution. On this basis, it is recommended that the closing date for this Credit be extended until December 31, 1987, to finance the continuation of the above-mentioned nine exploration sub-projects. This would imply a disbursement of a further US\$2.2 million until December 1987. No new commitments will be allowed and the balance of unused funds amounting to US\$3.5 million will be cancelled. This extension for limited purposes would allow the completion of these projects with good potential while future possibilities for assisting in exploration work and reactivation of the private mining sector are being explored. Further support is being considered as part of future possible operations such as the proposed Mining Sector Rehabilitation Project.

6. The extension would be conditional to FONEM submitting its audited 1985 financial statements. The Bank has been informed that the audit is currently underway and will be completed shortly. However, since the audit report is unlikely to reach the Bank before December 31, there may be a need to delay the disbursement period after the Closing Date slightly beyond the normal six month grace period from the current June 30, 1986 date.

7. The departments concerned concur with the above recommendations. If you agree, we would send the attached telex to the representatives of the Borrower.

Cleared with and cc: Messrs. Wessels, Torres
Ms. Marshall, Javier, Manley

cc: Messrs. de Capitani, Finzi, Goldberg, Barrientos, Kotschwar,
von Klaudy, Mendoza (Res. Rep.)
Ms. Cruz

PvanderVeen:vmd

1 2 INDD1

ADDRESSED

RE. EXTENSION OF CLOSING DATE CREDIT 940-BO FONDO NACIONAL DE
EXPLORACION MINERA

(AAA) I AM PLEASED TO INFORM YOU THAT UPON RECEIPT OF THE 1985
AUDIT REPORT REQUIRED UNDER SECTION 4.02 OF THE PROJECT AGREEMENT
DATED JULY 27, 1979, IDA WOULD BE PREPARED TO EXTEND THE CLOSING
DATE OF THE ABOVE CREDIT (IN ACCORDANCE WITH SECTION 2.04 OF THE
DEVELOPMENT CREDIT AGREEMENT DATED JULY 27, 1979) FROM JUNE 30,
1986 TO DECEMBER 31, 1987 ONLY FOR PURPOSES OF CONTINUING
FINANCING FOR EXPLORATION SUBPROJECTS ALREADY UNDER EXECUTION
(CATEGORY 1) OF SCHEDULE 1 TO THE CREDIT AGREEMENT. IT IS
ESTIMATED THAT THE AMOUNT REQUIRED FOR SUCH SUBPROJECTS IS
US DOLLARS 2,225,000.00 (FONEM'S 1986/1987 BUDGET, INCLUDING 20
PERCENT CONTINGENCY).

(BBB) CONSEQUENTLY NO FURTHER DISBURSEMENTS WILL BE MADE FOR
EXPENSES INCURRED UNDER CATEGORIES 2 AND 3. IN ORDER TO PREVENT
FURTHER PAYMENT OF COMMITMENT FEES, WE ADVISE THAT THE GOVERNMENT
REQUEST CANCELLATION OF THE OUTSTANDING BALANCES. THE PRESENT

2 2 INDD1

STATUS OF CREDIT 940-BO SHOWS THE FOLLOWING POSITION COLON

CATEGORY	ALLOCATED AMOUNT	DISBURSED AMOUNT	BALANCE	EXTENDED AMOUNT
1	4,300,000	681,867.58	3,618,132.42	2,225,000
2	2,980,000	1,018,637.79	1,961,362.21	0
3	220,000	26,900.57	193,099.43	0
	7,500,000	1,727,405.94	5,772,594.06	2,224,000

(CCC) ACCORDINGLY, THE BALANCES TO BE CANCELLED ARE AS FOLLOWS

COLON

CATEGORY

1	1,393,132.42
2	1,961,362.21
3	193,099.43
TOTAL	3,547,594.06

A REVISED AMORTIZATION SCHEDULE WILL BE SENT TO YOU AFTER
CANCELLATION OF THE OUTSTANDING BALANCES.

REGARDS, ROBERT PICCIOTTO, DIRECTOR, LATIN AMERICA AND THE
CARIBBEAN REGION.

TELEX

12/18/86

BOLIVIA - Credit 940-BO

PvanderVeen:vmd

72716

cc: Messrs.

Robert Picciotto, Director

LAC

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CONFIDENTIAL

OCT 17 2022

NOTE

December 12, 1986

WBG ARCHIVES

Mr. Knox: *AK*
(through Mr. *Que*)

Attached for your information is a note on a proposed scheme for "Debt-Development Swaps", specifically linked to Bolivia. The note was prepared by Colin Moynihan; it is an indirect by-product of his work for us on private investment issues for Bolivia. He has discussed these ideas with several Bank staff and with officials of the Bolivian Government but the proposal is his own and is not a "Bank" idea or document in any fashion. It has been elaborated in parallel with the current Bolivia proposal for debt buy back and differs from that proposal in important respects. My personal view is that it is interesting and ingenious and at least merits exploration.

I learned today that the British House of Commons will debate this proposal next week, under Mr. Moynihan's leadership. If there is any tangible outcome that I hear of directly I will let you know. Meanwile, I thought it would be useful to show the proposal as it stands to you in case any questions arise.



Katherine Marshall

cc: Messrs. Vibert, VPCAU; Pfefffermann, LCNVP; Ms. Donovan, SVPOP

KMarshall:vv

DEBT DEVELOPMENT SWAPS

1. Critical to the development prospects of Bolivia is urgent relief from the burden of debt servicing. This proposal aims to link debt to drug eradication programs which the government has decided to launch. Precedent in banking sector implementation of this proposal can be avoided by applying appropriate conditionality to the swaps. A coordinated international approach on the drug problem can be achieved combining the joint view in developing and developed countries that the narcotics trade poses a problem of considerable magnitude and mutual interest.

Proposal

2. Creditor government development departments/drug enforcement agencies buy back the commercial bank debt at a deep discount. Principal countries with bilateral or commercial bank exposure jointly approach the commercial banks on a joint pooling basis. Political leverage over the banks should be employed to ensure a price for the debt as close as possible to the 8-10 cents to the dollar asking price current in the secondary market for Bolivian debt.

- Initial efforts should be concentrated on the commercial debt. If purchases averaging 25 cents to the dollar can be agreed the \$800 million current exposure can be acquired for \$200 m.
- Initiated at the highest political level, the creditor countries negotiate a "sell back" arrangement to the Bolivian Central Bank at purchase price.
- Exchanged into pesos, the Bolivian Government in cooperation with the creditor governments employs local currency to implement a comprehensive drug eradication program using as a base the proposed Drug Eradication decree. Such a program to include a wide range of proposals from alternative employment for campesinos to total illicit hectareage destruction and drug rehabilitation centers. The local currency would be employed along procedural lines similar to that of a PL480.
- The Bolivian Government would raise the pesos within the constraints of the stabilization program and spread over a three-year period.

Background

- Inherent aversion in the banking sector to debtor countries buying back their debt is avoided by the involvement of governments. Paris Club conditionality is thereby covered through the involvement of third parties. Relations with the commercial banks can thus be normalized. Precedent is avoided

since development conditions acceptable to Bolivia but unlikely to be accepted by Peru or needed by Colombia are likely to be forthcoming. If successful, appropriate conditions for other countries involved in the narcotics trade can be negotiated and the principle of debt-development swaps extended; possibly to include bilateral debt.

- Whilst efforts for a buy back of the commercial debt are currently proceeding final agreements are likely to be stalled by lack of donor government involvement and the specter that haunts the international banking community, namely precedent. The development-debt program avoids both pitfalls.
- No single country can tackle the pervasive international effects of drug trafficking in isolation. A multinational program recognizing the need for a coordinated approach from campesino farmers to end users is essential to combat the trade.
- For Bolivian development, the advantage of mobilizing pesos to eradicate drugs have self-evident economic implications.
- International policing by a joint force of donor countries and Bolivians (akin to the UN "blue caps") to monitor and implement drug eradication programs gains more credibility with the Bolivian people than an American force generating anti-Americanism evidenced in "Fuera Yanki" graffiti prolifically daubed throughout city centers. This involvement would be that much more acceptable given a substantial investment program for rehabilitation, relocation and retraining, implemented in tandem.

Mr. Stern

OFFICE MEMORANDUM

12/9/84

OK thanks. Agree 11/24



DATE: November 21, 1986

TO: Mr. A. David Knox, Vice President, LCNVP

FROM: Francisco Aguirre-Sacasa, Assistant Director, LCPDR

SUBJECT: BOLIVIA - Ulla Ulla Project (Credit 762/Loan 1510-BO)
 Government's Request for Extension of Closing Date
 Proposed Reply

FAS

1. In accordance with the conclusions reached at the PIR meeting held on October 23, 1986, a letter (attached) has been prepared for your signature in reply to the Government's letter of October 10, 1986 to Mr. Stern (also attached), requesting an additional one-year extension to the loan's closing date. As agreed, your letter advises the Bolivians that such an extension will not be possible.

2. In view of the need to be as supportive as possible on this matter so as to minimize possible damage to country relations, and considering the complexity of the history of this project, I have decided to send a mission to Bolivia the week of November 24 to advise the Government on a course of action for the proposed yarn mill. Mr. Thornley, the mission leader, would personally deliver the attached letter to the appropriate Government officials.

Background

3. The project has been under implementation for eight and a half years and the closing date has been extended three times. Project execution has been extremely difficult throughout the implementation period. In addition to the well-known country-wide economic and political problems, the implementing agency (INFOL) has been subject to the political pressure of cabinet ministers and cumbersome Government procedures and regulations. This has caused major delays in project execution, and failure to start construction of the yarn mill. The project has also received inadequate counterpart funding.

4. While the roads and some of the social components (education and health) have been largely completed, others, such as credit and the yarn mill, have lagged since the beginning and will not be completed by the closing date. The yarn mill, the project's major investment, has been most affected by delays. This has been the main reason for the three extensions of the closing date.

5. The third extension, from June 1985 to December 1986, was approved by Mr. Stern in June 1985. However, it was not executed until March 1986 because of a general suspension of disbursements and disagreement with Government over the appointment of a manager for INFOL. We decided to go ahead with the extension in March 1986 because the environment for project implementation had improved with the early actions of the recently elected Government, giving us expectations that this would also result in an improved rate of project execution.

6. A May 1986 supervision mission, learning that the civil works contract for the yarn mill still had not been finally approved by Government, nor had counterpart funding been assured, informed Government that continued Bank support for the project would depend on these actions being completed by June 30, 1986. However, we were not informed of the provision of counterpart funds sufficient to cover the contract advance payment until October 14, 1986.

Recommendations

7. In the light of past performance, continuing bureaucratic delays, and the budgetary problems still faced by Government, it was concluded that there was no chance that Government could complete the yarn mill and put it into efficient operation, as envisaged. A September 1986 supervision mission therefore informed Government that the Bank would not agree to a further closing date extension. The mission also explored with Government officials the possibility of bringing in a private investor to build and operate the mill, or of selling the mill equipment. Neither was acceptable to the officials who contended that Government should first complete the mill and put it into operation, after which it would indeed be privatized.

8. The Minister of Finance informed the September mission that he would approach the Bank directly to request a further extension. This he has done in his October 10, 1986 letter to Mr. Stern.

9. The attached letter replies to that letter. A key element of our reply, beyond confirming that the closing date will not be extended, is to offer continued Bank assistance in resolving the yarn mill problem. This would include the possibility of further Bank Group financial assistance under a future operation provided that completion of the mill is found to be economically and financially justified and that a qualified private sponsor can be found to run the mill either as outright owner or under a joint venture agreement with Government.

10. Mr. Thornley's mission, which will be assisted by two staff members from the Industry Department, will discuss with Government alternatives for the yarn mill including: (a) finding private interests with the financial and technical resources to complete and operate the yarn mill either independently or jointly with Government; (b) the sale of a lease of the equipment; and (c) the need for future Bank Group support.

Enclosure

Cleared with and cc: Mr. M. Wilson (LCPAC); Ms. E. Javier (LC2PB);
Ms. N. Manley (LEGLC)

cc: Messrs. Stern (SVPOP); Gue (LC2DR); Thornley, Knudsen, Wilson,
(LCPAC); Rowat, Bhattacharya, Rivera (INDD3); Torres (LOALE);
Ms. Javier (LC2PB); Ms. Manley (LEGLC); Torres (LOALE)

FAguirre-Sacasa/CDowning/CPlaza:svc

November 21, 1986

Lic. Juan Cariaga
Ministro de Finanzas
Ministerio de Finanzas
La Paz, Bolivia

Dear Lic. Cariaga:

Mr. Ernest Stern, Vice President of Operations, has asked me to reply to your letter of October 10, 1986 requesting an extension of the closing date for Loan 1510-BO (the Ulla Ulla Rural Development Project).

After long and careful review of the project execution experience to date, we have reluctantly concluded that it would not be in the best interest of the Government of Bolivia and the Bank to have an additional extension. As you know, the project has already been under implementation for more than eight years and the closing date has been extended three times. When the last extension was granted, we had hoped that there would be sufficient physical progress by the end of 1986 to justify consideration of a possible additional extension; unfortunately, this has not been and cannot now be the case. Therefore, I hereby confirm to you that we are unable to extend Loan 1510-BO's closing date beyond December 31, 1986. Moreover, consistent with the loan documents, the Bank will not accept requests for disbursements under this Loan after December 31, 1986.

I wish to assure you that the Bank continues to believe in the importance of increasing rural incomes in the Altiplano. The proposed yarn mill may still present an opportunity to do this. For this reason I have sent the mission led by Mr. Frank Thornley, Chief of Agriculture Division C, who has delivered this letter to you, to discuss with you, your colleagues and officials, the continued viability of developing the yarn mill.

From our review of the Ulla Ulla Project's yarn mill, we believe that the Government should consider carefully whether the project, as presently designed, should be completed. As you know, an outlay of about US\$5 million from the Government investment budget would be required to complete the mill. In view of the severe fiscal constraints on the Government, we strongly advise that you consider postponing further expenditures on this mill (including proceeding with its civil works contract) until you (i) have re-examined and confirmed the mill's economic and financial viability; (ii) have assured financing for its construction; (iii) have made satisfactory technical arrangements to insure that the mill would be soundly operated; and (iv) have explored the possibility of interesting private investors in this enterprise. The mission is prepared to help you explore a range of options along these lines.

Before concluding, let me also assure you that, because of the importance we attach to this issue, we stand ready to consider further Bank Group financial assistance, under a future operation, to complete the mill. Bank Group financing would, however, depend on whether the mill's economic and financial viability can be demonstrated and whether suitable management and ownership arrangements with a private sponsor—so as to lessen the strain on Government—can be made. I have asked Mr. Thornley and his colleagues to explore this possibility whilst in La Paz.

Because of their interest in this matter, I am copying this letter to Mr. Edil Sandoval Moron, Minister of Agriculture and Peasant Affairs, Mr. Gonzalo Sanchez de Lozada, Minister of Planning, and Lic. Osvaldo Illanes, General Manager of the National Institute for Development of Wool.

Sincerely,



A. David Knox
Vice President
Latin America and Caribbean Region

cc: Mr. Edil Sandoval Moron, Minister of Agriculture
Mr. Gonzalo Sanchez de Lozada, Minister of Planning
Lic. Osvaldo Illanes, General Manager, INFOL

Cleared with and cc: Ms. Marshall (LC2PB).

Cleared in substance with and cc: Mr. Gue (LC2DR), Ms. Manley (LEGLC).

cc: Messrs. Stern (SVPOP); Picciotto (LCPDR); Thornley, Knudsen, Wilson, Plaza (LCPAC); Rowat, Bhattacharya, Rivera (INDD3); Torres (LOALE); Ms. Javier (LC2PB); F. Mendoza, (Res. Rep., La Paz, Bolivia).

FAGuirre-Sacasa/CDowning:svc



MINISTERIO DE FINANZAS
BOLIVIA

C. Plaza

La Paz, 10 de octubre de 1.986

Señor

Ernest Stern
VICE PRESIDENTE DE OPERACIONES
DEL BANCO MUNDIAL

1818 H. Stree N.W.
Washington D.C. 20433
ESTADOS UNIDOS

REF: PROYECTO DE DESARROLLO RU
RAL ULLA ULLA; CREDITO --
762-BO, PRESTAMO 1510-BO

Estimado Sr. Vice Presidente:

Como es de su conocimiento, la ejecución del proyecto de referencia comenzó a partir del 31 de agosto de 1978. La fecha original de cierre, 30 de junio de 1983, ha sido prorrogada tres veces con el fin de compensar el retraso en su ejecución causado por anteriores situaciones internas del País, tales como: huelgas, falta de recursos de contrapartida, elevación de costos debido a la hiperinflación de nuestra economía y suspensión en dos ocasiones de los desembolsos del Banco Mundial. El principal componente afectado ha sido la construcción de la planta de hilados en la que ya hemos invertido más de 6 Millones de Dólares Americanos - en equipo y maquinaria.

La reciente misión que supervisó el Proyecto entre el 8 y 24 de septiembre, nos ha informado que debido a la demora en la iniciación de las obras civiles esta no podría recomendar una prórroga adicional de la fecha de cierre y; que por tanto, el saldo que hubiere al 31 de diciembre de 1986 sería cancelado. El propósito de esta comunicación

///..2



es solicitar en forma especial que la fecha actual de cierre del Prestamo (31 de diciembre 1986) sea prorrogada una vez más hasta el 31 de diciembre de 1987 con el fin de cumplir los objetivos del proyecto, en especial, la construcción y ensamblaje de la planta de hilados de fibras de alpaca y llama.

Esta planta de hilados es uno de los componentes más importantes del Proyecto Ulla Ulla. Su establecimiento es de alta prioridad para la economía del País ya que será una fuente generadora de divisas y contribuirá a elevar el nivel de vida de miles de familias campesinas demuy bajos recursos económicos.

Desafortunadamente, la construcción de la Planta ha sufrido serios retrasos principalmente por la grave situación política-económica del País en los últimos cuatro años y además por los lentos procedimientos burocráticos que han sido características de nuestra administración pública.

A la fecha se han tomado las acciones para iniciar la construcción de las obras civiles. Se ha firmado el contrato respectivo, y hemos asignado los fondos necesarios en el presupuesto Nacional. Los fondos de contrapartida correspondientes al anticipo para el contratista han sido desembolsados por el Tesoro General de la Nación.

Además señor Vicepresidente, el Gobierno actual desde su posesión en agosto de 1985 está introduciendo medidas tanto económicas como administrativas para acelerar en forma eficiente y eficaz el uso de los préstamos internacionales y la ejecución de los proyectos financiados por tales préstamos. Un ejemplo de estas medidas lo constituye la asignación prioritaria de presupuesto, mayor agilidad en el proceso de licitaciones y mayor autonomía de gestión de las Entidades ejecutoras. Por otro lado usted conoce las acciones trascendentales que en política económica el Gobierno ha tomado y que constituyen una iniciativa



casi única en Latinoamérica y una muestra palpable de los esfuerzos y responsabilidad del Gobierno de Bolivia para superar la enorme crisis - que soporta el País. Pese a esta mejora, nuestros recursos son limitados y debemos hacer uso efectivo de los préstamos vigentes y evitar a todo - costo que proyectos tan importantes como el de Ulla Ulla queden estancados.

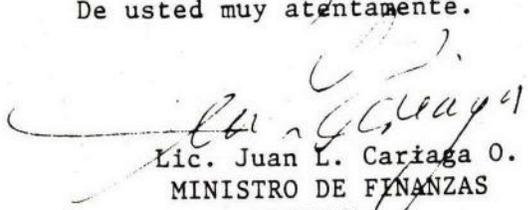
Finalmente, debo poner en conocimiento suyo las medidas que el Gobierno esta adoptando para el caso específico de la planta hilandera de referencia. En primer lugar, se ha dispuesto que la planta desde su puesta en marcha funcione bajo las características de Empresa - Mixta, para la que ya se ha elaborado los estatutos correspondientes. Así mismo, se ha dispuesto que el manejo de la planta en su fase inicial de -- operación este a cargo de especialistas, internacionales si fuera necesario, que garanticen el buen manejo de esta importante inversión. Todo esto, suma do a la ventaja comparativa de ser uno de los dos únicos países productores de Fibras de Alpaca y Llama garantiza que las perspectivas económica, técnica y de mercado sean las mas promisorias para esta planta.

Tomando en cuenta todos estos antecedentes es - que consideramos que el caso del Proyecto de Ulla Ulla merita una consideración especial del Banco que permita su extensión por el tiempo necesario para construir la planta de hilados y alcanzar los objetivos del proyecto.

La construcción se iniciará indefectiblemente - tan pronto el Banco apruebe el contrato de construcción y efectue el desembolso del 68% del anticipo a la Empresa Constructora. El tiempo de construcción será de 16 meses y proyectamos comenzar la operación de la planta en enero de 1988.

Mi Gobierno queda en espera que de que el planeamiento y solicitud motivo de esta carta sea resuelto en forma favorable. El Gobierno por su parte esta dispuesto a proveer a este proyecto todo el apoyo que sea necesario.

De usted muy atentamente.


Lic. Juan L. Cariaga O.
MINISTRO DE FINANZAS
BOLIVIA

A N E X O

REFERENCIAS A NOTA ADJUNTA
(PROYECTO ULLA ULLA)

1.- CONVENIOS VIGENTES:

- | | | | | | | |
|------|--|---|----------------------------|-------|---|--------------|
| 1.1. | 762 - BO | : | Gobierno de Bolivia - AIF | \$us. | / | 9.0 Millones |
| 1.2. | 1510- BO | : | Gobierno de Bolivia - BIRF | \$us. | / | 9.0 Millones |
| 1.3. | VIII- 1255 - en _ 77 Gob. de Bolivia - CEE | : | | \$us. | / | 2.0 Millones |

2.- FECHAS INICIALMENTE VIGENTES:

- | | | | |
|------|---------------------|---|----------------------|
| 2.1. | Firma de Convenios | : | 6 de abril de 1978 |
| 2.2. | Fecha de Vigencia | : | 31 de julio de 1978 |
| 2.3. | Fecha de Iniciación | : | 31 de agosto de 1978 |
| 2.4. | Fecha de Cierre | : | 30 de junio de 1983 |

3.- EXTENCIONES A LA FECHA DE CIERRE APROBADAS:

- | | | | |
|------|-------------------|---|--------------------------------------|
| 3.1. | Primera Extensión | : | Hasta el 30 de junio de 1984 |
| 3.2. | Segunda Extensión | : | Hasta el 30 de junio de 1985 |
| 3.3. | Tercera Extensión | : | Hasta el 31 de diciembre de 1985 (*) |
- (*) Comunicación recibida el 11 de marzo de 1986.

4.- PERIODOS DE SUPERVISION DE DESEMBOLSOS DEL BANCO MUNDIAL:

- | | | | |
|------|--------------------|---|-----------------------------------|
| 4.1. | Primera Suspensión | : | Abril 84 a octubre 84 = 7 meses |
| 4.2. | Segunda suspensión | : | Julio 85 a noviembre 85 = 5 meses |

5.- PERIODOS DE SUSPENSION DE ACTIVIDADES DEL SECTOR BANCARIO:

- | | | | |
|------|---------------------|---|------------------------|
| 5.1. | Periodo contemplado | : | enero 1982 a mayo 1986 |
| 5.2. | Número de huelgas | : | 136 |
| 5.3. | Número de días | : | 476 |

6.- MODIFICACION INSTITUCIONALES DURANTE EL PROYECTO:

- | | | | |
|------|--------------------------|---|----|
| 6.1. | Número de Ministros | : | 26 |
| 6.2. | Número de Gerentes INFOL | : | 8 |

OFFICE MEMORANDUM

11-45
11/6/86

David
Extraordinary.
But I trust that
the 12/31/86 will
not be extended
under any
circumstances.
ES
11/12/86

DATE: November 5, 1986

TO: Distribution

FROM: Frank Thornley, Division Chief, LCPAC

SUBJECT: BOLIVIA - Ulla Ulla Project (Cr. 762-BO/Ln. 1510-BO)
Fall 1986 PIR - Comment on Section 5 of Form 590

At the Regional PIR Review it was decided that the Bank would not participate in financing the civil works contract recently signed by Bolivian Project Authorities. However, we have subsequently been advised by LEGLC that the Bank is obligated to finance eligible expenditures until the closing date, unless disbursements have been suspended on project grounds, or Bank staff have convinced the Borrower not to proceed with the works. Suspension is no longer feasible because there are less than two months remaining until the closing date. Furthermore, despite our efforts to convince the Borrower not to proceed with construction until the future of financial arrangements has been assured, the first application for withdrawal (contract advance payment) has already been received.

Therefore, I wish to advise you that the action proposed, Section 5, para. 5.1, sub-para. (b) of the attached 590, cannot be enforced until the closing date of December 31, 1986.

cleared with and cc: N. Manley (LEGLC)

- Distribution: Messrs./Mesdames
- E. Stern, SVPOP
 - S. Husain, OPSVP
 - D. Knox, LCNVP
 - A. Gue, LC2DR
 - R. Picciotto, LCPDR
 - G. Pfeffermann, LNCVP
 - F. Aguirre-Sacasa, LCPDR
 - U. Finzi, LCPDR
 - J. Jennings, LCPDR
 - E. Wessels, LCPDR
 - M. Linder, LCPDR
 - A. Ray, LCPDR
 - C. Quinjano, LCNVP
 - G. Dolenc, LCNVP
 - K. Marshall, LC2BP
 - E. Javier, LC2BP
 - M. Wilson, LCPAC
 - C. Plaza, LCPAC
 - G. Torres, LOALE
 - L. Villalobos, LOALE

CDowning:svc

6/85
FOR DETAILED INSTRUCTIONS ON COMPLETION OF THIS FORM,
PLEASE SEE ANNEX C OF OMS 3.50THIS SUMMARY IS () THE INITIAL SUMMARY
() PART OF A MISSION REPORT
() AN ANNUAL UPDATE

REGIONAL OFFICE: LATIN AMERICA	PROJECT NAME: ULLA ULLA DEVT PROJ	PROJECT CODE: 6BOLPA021	LOAN (X) CREDIT (X) NO C07620 L15100	L.C. AMT (\$XX.XM/SDR): 18.0/0
COUNTRY: BOLIVIA	BORROWER/BENEFICIARY: REPUBLIC OF BOLIVIA	BOARD DATE/FY: 01/12/78 - 78	SIGNING DATE: 04/06/78	EFFECTIVE DATE: 07/31/78
MANAGING DEPT./DIV. NAME: AGRICULTURE DIVISION C	ORG CODE NO.: 16617	PROJECTS OFFICER: PLAZA	LOAN OFFICER: JAVIER	MISSION END DATE: 09/23/86

SECTION 1: PROJECT DATE AND PERFORMANCE RATINGS	CLOSING DATE (MO/YR)	COMPL. DATE (MO/YR)	PROJ. COSTS (\$/LOCAL) (XX.XM)	DISBURSEMENT (09/86) MO/YR (\$XX.XM) (% OF LC)	RATINGS	THIS SUM	LAST SUM
SAR/PR:	06/30/83	12/31/82	24.0/480.0	SAR/PR :\$ 18.0 (100.0)	AVAIL. FUNDS	4	4
REVISED:	12/31/86	06/30/86	30.2/57380.0	ACTUAL :\$ 12.5 (69.4)	PROJECT MGMT.	3	3
LAST IS:	12/31/86	12/31/86	30.2/57380.0	PROFILE:\$ 17.6 (98.0)	DEV. IMPACT	4	4
EXPECTED:	12/31/86	12/31/86	30.2/57380.0	COMMT. :\$ 13.0 (72.4)	OVERALL STAT.	4	4
		COMPL. DELAYS	COST OVERRUN	DISB. LAG			
RATINGS - THIS SUMMARY		(90.5 %)	(25.8 % 11854%)	(30.6 %)			
RATINGS - LAST SUMMARY: (08/27/86)		(90.5 %)	(25.8 % 11854%)	(-38.6 %)			

SECTION 2: SUMMARY PROJECT DESCRIPTION: TYPE OF LENDING INSTRUMENT: SPECIFIC INVESTMENT LOANS

The project provides services and credit to improve livestock production and the incomes of livestock owners in the Ulla Ulla areas. A yarn mill component is included to modernize the processing of fiber of alpacas and llamas, which are the major livestock in the area. Social infrastructure and associated services are provided in the project area, and promotion, training and credit for artisanal activities based on animal products are included in a wider area covering two provinces. The project is executed by the National Institute for the Development of Wool (INFOL). The alpaca and llama wool processing plant would provide Bolivia a unique opportunity to earn foreign exchange and the only competition is from Peru. Demand exceeds current supply of Alpaca wool, and adequate raw material is available in Bolivia.

SECTION 3: PROJECT STATUS. SUMMARIZE CURRENT STATUS OF IMPLEMENTATION. IDENTIFY MAJOR PROBLEMS.

See attachment.

SECTION 4: ACTION TAKEN. SUMMARIZE CURRENT ACTIONS TAKEN OR AGREED TO BE TAKEN WITH BORROWER TO ADDRESS MAJOR PROBLEMS.

See attachment.

SECTION 5: ACTION PROPOSED. SUMMARIZE FURTHER ACTIONS REQUIRED. INCLUDE AGENDA FOR NEXT MISSION (MO/YR) (02/87)

See attachment.

NAME OF PREPARING OFFICER: O. KNUDSEN /C. Downing	DATE: 10.28.86	REVIEWED BY: (DIVISIONAL MANAGER) FRANK THORNEY, DIV. CHIEF	PIR REVIEW: (ASST. DIR/DIR/RVP) A.D. KNOX
--	-------------------	--	--

Section 3: Summary Project Description

3.1 The project has already been under implementation for more than eight years and the closing date has been extended three times. Project execution has been delayed by frequent changes in management and key political figures (8 project directors and 26 ministers of agriculture), frequent national strikes in 1984 and 1985, and Bank suspensions of disbursements on country grounds. Progress of some components (roads, schools and health centers) has been satisfactory; while extension services and credit delivery have lagged and targets will not be met. The principal component, the wool yarn mill, is now more than four years behind schedule and the start of construction is still pending.

3.2 The Bank approved the proposed awards of the civil works contract in June--subject to approval of the Contraloria and provision of evidence that counterpart funds had been deposited in a special account with the Central Bank. It was originally expected that the conditions would be met and work begin by June 30. However, the contract (US\$1.6 million equivalent) was not signed and approved by the Contraloria until September 4. Evidence of the provision of counterpart funds for the contract advance payment was submitted to the Bank on October 14, 1986. There is still considerable risk that the mill operation and maintenance under public ownership and management will prove inefficient. Six million dollars worth of processing equipment is on-hand and about US\$2.5 million in hardware and ancillary equipment, required during the construction phase, must still be purchased by INFOL. Another US\$1.0 million would be required for consultants and training.

3.3 The loan balance of more than US\$5 million is sufficient to finance these expenditures; however, availability of counterpart funds would continue to be a problem and further delays cannot be ruled out. The government still assigns a high priority to completing the plant, but with the loan closing December 1986, it is unlikely that GOB would have resources to complete the plant unless the Bank loan closing date is extended for about two years. Since the prospects of securing adequate management for the plant are dim and Bolivia can ill afford continued public expenditures on this ambitious scheme, the risks involved in further extension of closing date appear prohibitive.

Section 4: Action Taken

4.1 The project was supervised on September 9-26, 1986. Shortly after arrival, the mission advised (by letter) the Ministers of Agriculture and Finance and the Director of INFOL that the mission would not recommend another extension. The financial obligations of the Government and the implications of proceeding with construction were clearly indicated in the letter and subsequent meetings with the Ministers. The mission suggested that they consider the following alternatives: (a) find a private sector investor; or (b) sell the equipment. It was indicated that the Government was interested in privatization but felt this alternative was unrealistic until the plant becomes operational; selling this specialized and customized equipment was not considered to have any merit.

Section 5: Action Proposed

5.1 At the Fall 1986 PIR Review it was decided that:

- (a) the Government be advised that the Bank would not extend the closing date;
- (b) the Bank would not participate in financing the civil works contract for the mill; and
- (c) if the Government is determined to proceed with construction of the mill, the Bank Group would consider the possibility of assistance under a possible future operation, provided the Government reaches satisfactory arrangements with a private investor to participate in the construction and operation of the mill.

OFFICE MEMORANDUM

~~REC~~ + file
pk
ED
3/21/86

DATE: March 19, 1986

TO: Mr. Ernest Stern

THROUGH: Mr. S. M. L. van der Meer, Acting Regional Vice President, LAC

FROM: Andre ~~Gue~~, Director LC2DR

EXT.: 72011

SUBJECT: BOLIVIA - Highway Maintenance Project (Ln.1587-B0)
Extension of Closing Date

1. I request your authorization to extend the Closing Date of this Project from June 30, 1985 (extended once from the original Closing Date of December 31, 1983) to December 31, 1986 and to communicate to the Government that the Bank would consider a further and final extension to December 31, 1987 provided the activities discussed below are proceeding satisfactorily. While the latter date would represent a four year extension of the Loan's original Closing Date, it implies less than three years of additional project execution time because project activities were virtually paralyzed during the thirteen months general suspension of all Loans/Credits to Bolivia (November 1983 to July 1984 and July 1985 to December 1985).

2. This exceptional proposal is justified by the recent Government reform measures and our consequent efforts to assist the Government with all operational tools at our disposal. The studies (para. 4) to be financed would assist in the design and implementation of a medium-term recovery program which is an urgent priority for Bolivia. The extension would also support urgent highway maintenance works which would contribute to economic recovery. Thus the proposal to complete the project has merit both on country and project grounds. Because the suspension was in force in the second half of 1985, we were not able to request the Loan's extension immediately after the June 30, 1985 Closing Date. As of March 15, 1986, US\$1.9 million of the US\$25 million Loan remains undisbursed.

Background

3. The Project aims to improve road maintenance in Bolivia by (a) preparing a country-wide highway maintenance, rehabilitation and upgrading program, (b) carrying out deferred road maintenance, (c) providing the necessary equipment, vehicles, tools and spare parts, and (d) providing technical assistance including strengthening of the National Transport Unit which undertakes transport planning, studies and systems analysis tasks for the Ministry of Transport, Communications and Civil Aeronautics. The Project has experienced delays in part because of disruptions arising from unstable political and economic conditions, budgetary constraints, weather disturbances, and the general suspension of Loans/Credits to Bolivia.

Nonetheless, progress has been made in maintaining 15,000 km. of roads in line with the appraisal target; completion of the equipment procurement program and technical assistance for road maintenance activities. However, other activities related to the accomplishment of the deferred maintenance of 2,000 km. is behind schedule and the studies programmed by the National Transport Unit have yet to be carried out.

Justification

4. The National Transport Unit was previously financed by the Third Railway Project (Ln. 1422-B0) with co-financing of UNDP. When the Railway Project closed, the Bank agreed to amend the Highway Maintenance Project in order to use US\$200,000 from the technical assistance component to continue supporting the Unit. However, the Unit was not able to start the studies required by the Ministry of Transport because of the disbursement suspension in the second half of 1985. The proposed extension would thus allow the Unit to hire the required consultants to (i) carry out studies on the rationalization of railway tariffs to enable ENFE, the state railway company to respond more effectively to market demands and to achieve financial viability in the medium term; (ii) assist the Transport Ministry define its investment policies and priorities suitable for various transportation modes; and (iii) advise the Transport Ministry on transport policy and maintenance management issues. The consultants needed for these activities, particularly the tariff rationalization studies, would need to be hired for about two years, hence the request to consider in principle an extension beyond December 1986.

5. The proposed extension to December 1986 would also allow the Government to import urgently needed asphalt to complete the deferred maintenance works. Considering the country's serious foreign exchange constraints, the availability of this financing will be of significant assistance to the Government.

Recommendation

6. I recommend the approval of this extension. May I have your agreement?

Cleared with and cc: Messrs. Markus, Lanas, LCPTR; Cucullu, Ms. Molaes, LEG; Torres, LOA; Ms. Parrilli, LCNVP

EJavier:vv

OFFICE MEMORANDUM

3-37
3/6/86

GR



DATE: March 4, 1986

TO: Mr. Rainer B. Steckhan, Acting RVP, LAC

THROUGH: (Mr. Andre R. ~~Gue~~, Director, LC2)

FROM: Peter R. Scherer, Division Chief, LC2PB

EXT.: 76251

SUBJECT: BOLIVIA - Late Payments: Update

1. At 3:30 p.m. today, Mr. Jaime Delgadillo, General Manager of the Central Bank of Bolivia, informed me that all the arrangements for the payment of US\$1.7 million due since January 1 had been finalized. Instructions for payment had been issued to their correspondent bank in New York. Our resident office has received a copy of the telex instructions. In view of the above, I am not planning to send the 60-day warning telex.

Cleared with and cc: Ms. Javier, LC2PB

cc: Messrs. Stern; Goldberg, Collell, LEG; van der Meer, LCPDR; Subramanian, Markham, LOALA; Mayer, Torres, LOALE; Topolsky, Wijesinghe, (Mrs.) Pan, CSH; Ms. Lamadrid, LC2DR.

VLWilcher

OFFICE MEMORANDUM

3-1
3/3/86

OK
WJ

DATE: February 28, 1986

TO: Mr. Rainer B. Steckhan, Acting RVP, LAC

THROUGH: (Mr. Andre R. ~~Stue~~ Gue, Director, LC2)

FROM: Peter R. Scherer, Division Chief, LC2PB

EXT.: 76251

SUBJECT: BOLIVIA - Late Payments: 60-Day Warning Telex

1. On March 3, 1986 there will be three debt service payments outstanding for 60 days totalling approximately US\$1.7 million. Our resident office was informed this afternoon by Mr. Juan Vega (FINEX, Ministry of Finance) that every effort was being made, in coordination with the Central Bank, to pay the outstanding amount by 6:00 p.m. tonight. Mr. Vega said that the Subsecretary of Finance, Mr. Taborga was aware of the deadline on Monday and that he had authorized the instructions for payments to be made. In view of the above, I recommend to postpone sending the 60-day warning telex until c.o.b. Tuesday, March 4 to allow sufficient time for confirmation of payments. The 60-day warning telex will be issued at that time if the payments are not received.

Cleared with and cc: Ms. Javier, LC2PB

cc: Messrs. ~~Stern~~ Goldberg, Collell, LEG; van der Meer, LCPDR; Subramanian, Markham, LOALA; Mayer, Torres, LOALE; Topolsky, Wijesinghe, (Mrs.) Pan, CSH; Ms. Lamadrid, LC2DR.

VLWilcher

OFFICE MEMORANDUM

DATE: November 26, 1985

TO: Mr. Ernest Stern

THROUGH: Mr. A. David Knox *AK*

FROM: Andre *A* Gue, Director, LC2

EXT.: 72275

SUBJECT: BOLIVIA - Lifting of Disbursement Suspension

Approved
At
Mr. Gue Dec. 2.

1. As you know, on July 2, 1985 we suspended disbursements to Bolivia because the April payments were overdue by more than 75 days. One of the major reasons for this delay was that the presidential election was to take place in August and nobody in the outgoing Siles Government wanted to make any decision on the payments. In September, we agreed with the new Government on a payment schedule that would leave outstanding obligations of less than 30 days by December 1. The Government has adhered to this schedule. On November 19, we received US\$3.8 million for the September payments; as of date, we have received a total payment of US\$9.4 million (April-September outstanding obligations). The Central Bank advised us that the October payments of US\$4.9 million would be made by December 1.

2. After receipt of the October payments during the first week of December, I recommend that the Bank lifts the suspension of disbursements notwithstanding the fact that arrears of about 30 days for the November payments (US\$1.9 million) still exist. This reprieve would show our appreciation for the serious efforts of the new Government to comply with its obligations with us under difficult economic circumstances and a tight foreign exchange situation. Likewise, it would show our support and encouragement to its audacious stabilization and structural reform program. You had agreed to a similar procedure in May 1985.

Cleared with and cc: Messrs. Scherer, LC2PB; Shihata, LEG; Markham, LOALA; Torres, LOALE; Wijesinghe, Akingbade, CSH.

cc: Messrs. Jennings, van Gigh, Wessels, Finzi, LCPDR; Pfeffermann, LCNVP; Goldberg, Collell, (Ms.) Molares, LEG; Hittmair, Lee, Mayer, LOA; De Boeck, Vergin, TRE; Topolsky, CSH; Carter, (Ms.) Lamadrid, LC2DR; Zea, LC2PB.

EJavier:vv:vlw

International Bank for Reconstruction and Development
International Development Association

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WBG ARCHIVES

SecM85-796

IDA/SecM85-243

From: Vice President and Secretary

July 9, 1985

BOLIVIA

SUSPENSION OF DISBURSEMENTS

As of July 2, 1985, the Bank and the Association had not received service payments in the amount of US\$2.6 million which were overdue by more than 75 days. In view of these delays in payments, the Bank and the Association have suspended disbursements on all outstanding Bank loans and IDA credits to, or guaranteed by, the Republic of Bolivia as of July 2, 1985.

Distribution

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

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July 2, 1985



Mr. Ernest Stern:

BOLIVIA - Suspension of
Disbursement

Given the continued strike at the Central Bank of Bolivia, I have today suspended disbursement on all loans and credits after the expiration of the one week extension you agreed upon. For your information, I attach a background memo on the status of the strike, and a copy of the telex suspending disbursements.



A. David Knox

Attachments

OFFICE MEMORANDUM

DATE: July 2, 1985

TO: Mr. A. David Knox
(through Mr. Andre ~~A~~ Gue, Director, LC2)
FROM: Amnon Mates, Acting Division Chief, LC2PB
ci at
EXT.: 76253

SUBJECT: BOLIVIA - Suspension of Disbursement

1. The Central Bank was still on strike as of this morning and it is uncertain whether it will reopen this week. The confrontation between the union of the Central Bank and the Government has come to an impasse. The Board of Directors has requested the dismissal of the General Manager on the grounds of mismanagement. The union considered that the General Manager was a staff position and that the Board of Directors had no authority to ask for his dismissal. In reaction, the unions requested the resignation of the Central Bank's President.

2. The confrontation has thus entered its third week. None of the two parties is willing to make concessions and it is difficult to anticipate how the conflict could end. It may even last until the elections, which at this time also seem uncertain. Strikes have already led the Electoral Court to put off elections by a month (to July 14). The Central Bank strike, together with general strikes in Santa Cruz and Chuquisaca (because of a three-month delay on payment of taxes earmarked to these provinces) may create delays in the distribution of ballots, ballot boxes and other logistical arrangements required for orderly elections. The anticipation of a possible further delay in elections and/or elections with questionable results because of poor preparation and thus liable for annulment (which happened in 1978) is causing a nervousness and feeding the proliferating rumors of a coup. In this context, it is difficult to anticipate when the Central Bank may reopen.

3. In view of the non-payment (US\$2.6 million) of outstanding loans and credits and the continued strike at the Central Bank, I propose to send the telex on disbursement suspension as of c.o.b. today (July 2) in line with the recommendation in our June 24 memorandum to Mr. Stern (copy attached). If you agree, please sign the attached telex.

Attachment

Cleared with and cc: Mr. Velic, LEG; Ms. Javier, LC2PB.

cc: Messrs. Stern; Shihata, Goldberg, Collell, LEG; van der Meer, LCPDR; Scherer, LC2 (o/r); Subramanian, Markham, LOALA; Mayer, Torres, LOALE; Topolsky, Wijesinghe, Akingbade, CSH; Ms. Lamadrid, LC2DR.

RZagha::vlw

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

6/26 a Scherer

Pl handle.
and follow
up.

OK
ED
6/26/85

DATE: June 24, 1985

TO: Mr. Ernest Stern
(through Mr. A. David Knox)

FROM: Andre R. Gu... Director, LC2

EXT.: 72011

SUBJECT: BOLIVIA - Request to hold Disbursement Suspension

1. Another installment of the Bolivian late payment saga. The Central Bank (CB) staff are still on strike and the payment instructions for the ENFE loans (US\$1.5 million) could not be made today. All requisite approvals for the ENFE payments have been obtained. However, since the Central Bank premises are barricaded and not even the CB President can enter, there apparently is no way to make the transfers. I just received information that the strike may be ended today but it might as well last for another week.

2. In view of the Government's willingness to pay and the CB President's confirmation that it has the foreign exchange to do so, and considering that payments covering almost all outstanding obligations till June 15 have already been made, I propose that we do not suspend disbursements today as indicated in our June 20 memorandum but give the Government some more time, say one week. Should the Central Bank strike not be over by then, we would send the telex suspending disbursement. Likewise, we would send the telex if the Government does not issue payment instructions immediately after the Central Bank premises have become accessible again. We shall monitor the situation on a daily basis. May I have your agreement.

Cleared with and cc: Mr. Velic, LEG.

cc: Messrs. Shihata, Goldberg, Collell, LEG; van Gigh, LCPDR;
Subramanian, Markham, LOALA; Mayer, Torres, LOALE; Topolsky,
Wijesinghe, Akingbade, CSH; Ms. Lamadrid, LC2DR.

EJaiver/PRScherer:vlw

WORLD BANK OUTGOING MESSAGE FORM Cable, Telex

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OINFO

-SUBJECT: BOLIVIA - SUSPENSION OF DISBURSEMENTS

-DRAFTED BY: EJAVIER:VLW

-AUTHORIZED BY: A. DAVID KNOX

-CLEARED WITH AND CC: MESSRS. SHIHATA, GOLDBERG, CUCULLU,

-VELIC, LEG; WIJESINGHE, AKINGBADE, CSH; TORRES, MARKHAM, LOA;

-(MS.) CARDASH, LOA.

-CC: MESSRS. STERN; GUE, LC2; SCHERER, LC2 (O/R); TOPOLSKY,

-CSH; MAYER, SUBRAMANIAN, LOA; MS. LAMADRID, LC2.

-CC: MR. COATES, EDS

355 2286 =

-CENTRAL BANK OF BOLIVIA

-LA PAZ, BOLIVIA

-ATTENTION: MESSRS. CARDOZO, MEDINACELLI, CERVANTES, AND FLORES

355 2617 =

-MINISTRY OF FINANCE

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INFORMATION BELOW NOT TO BE TRANSMITTED

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-LA PAZ, BOLIVIA

-ATTENTION: MESSRS. BELMONTE, RUIZ, AND ARCE

355 3280 =

-MINISTRY OF PLANNING

-LA PAZ, BOLIVIA

-ATTENTION: LIC. F. JUSTINIANO

IBRDLAP

-ATTENTION: MRS. ANA MARIA PAZ

BT

WASHINGTON DC - 02-JUL-85

ADDRESSED TO MESSRS. BELMONTE, RUIZ, CARDOZO, CERVANTES, AND

FLORES FOR INFO MESSRS. JUSTINIANO, MEDINACELLI AND ARCE AND

MRS. PAZ. ON JUNE 3, 1985, WE SENT A TELEX SEEKING YOUR

COOPERATION IN BRINGING BOLIVIA'S OUTSTANDING SERVICE PAYMENTS

CURRENT AND ADVISING YOU OF THE BANK'S AND ASSOCIATION'S

INTENTION TO SUSPEND DISBURSEMENTS UNDER ALL BANK AND

ASSOCIATION LOANS AND CREDITS IF ALL OUTSTANDING SERVICE

PAYMENTS WERE NOT RECEIVED BY JUNE 17, 1985. IN SPITE OF THE

CENTRAL BANK PRESIDENT'S COMMITMENTS ON JUNE 12 AND JUNE 18 THAT

THE OUTSTANDING SERVICE PAYMENTS REFERRED BELOW WOULD BE MADE,

WE HAVE STILL NOT RECEIVED THE FOLLOWING PAYMENTS (I) UNDER LOAN

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1422-0 (USDOLLARS 1,431,717.68) SEMICOLON LOAN 1422-5 (USDOLLARS
 138,743.35) DUE APRIL 1, 1985 SEMICOLON (II) UNDER LOAN 1238-0
 (USDOLLARS 928,080.00) DUE MAY 1, 1985 SEMICOLON AND (III) UNDER
 CREDIT 107-0 (USDOLLARS 20,380.25) SEMICOLON CREDIT 171-0
 (USDOLLARS 13,719.25) SEMICOLON CREDIT 261-0 (USDOLLARS
 57,248.29) DUE MAY 15, 1985. IT IS WITH UTMOST REGRET THAT I
 THEREFORE MUST INFORM YOU THAT THE BANK AND THE ASSOCIATION
 HEREBY SUSPEND AS OF 12 O'CLOCK, MIDNIGHT, JULY 2, 1985, THE
 RIGHT OF THE RESPECTIVE BORROWERS TO MAKE ANY FURTHER
 WITHDRAWALS UNDER ALL BANK LOANS AND ASSOCIATION CREDITS WHICH
 ARE STILL DISBURSING, ACCORDING TO SECTIONS 6.02 OF THE GENERAL
 CONDITIONS APPLICABLE TO LOAN AND GUARANTEE AGREEMENTS AND TO
 DEVELOPMENT CREDITS AGREEMENTS, RESPECTIVELY. THE SUSPENSION IS
 SUBJECT, HOWEVER, TO THE FOLLOWING EXCEPTIONS COLON (I)
 WITHDRAWAL APPLICATIONS RECEIVED ON OR BEFORE AUGUST 2, 1985,
 COVERING PAYMENTS PURSUANT TO CONTRACTUAL ARRANGEMENTS APPROVED
 BY THE BANK OR THE ASSOCIATION FOR THE SUPPLY OF GOODS SHIPPED
 OR DELIVERED OR FOR WORKS OR SERVICES PERFORMED ON OR BEFORE
 JULY 17, 1985, AND (II) REQUESTS FOR REIMBURSEMENT TO COMMERCIAL
 BANKS HOLDING QUALIFIED OR IRREVOCABLE AGREEMENTS TO REIMBURSE
 ISSUED BY THE BANK OR THE ASSOCIATION ON OR BEFORE JULY 2,

21
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Mr. Stern

RC

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Bolivia

Although this further two-tier extension would stretch the project to $8\frac{1}{2}$ yrs, I find the reasoning persuasive provided it is clear that: (i) this is absolutely the last; (ii) the conditions for the final extension are rigorously enforced, and perhaps the Region should report to you before agreeing to it. There presumably is not much point in putting the plant into operation if it cannot operate profitably (para 9).

RC

6/24/85

OFFICE MEMORANDUM

DATE: June 21, 1985

TO: Mr. Ernest Stern
(through A. David Knox) *AM*FROM: Fred Levy, Acting Director, LC2DR *FL*

EXT.: 72015

SUBJECT: BOLIVIA - Ulla Ulla Rural Development Project (Ln. 1510-B0/
Cr. 762-B0) Extension of Closing Date*Orig. to ADKnox 6/25*
OK - last time,
ES
6/25/85

1. I would like to request your approval to extend the Closing Date of the above Project from June 30, 1985 to March 31, 1986 and to communicate to the Government that the Bank would consider a further and final extension to December 31, 1986 provided project execution is proceeding satisfactorily. This would imply an extension of three and a-half years beyond the original Closing Date (June 30, 1983) and an implementation period of eight and a-half years. The proposed third and anticipated fourth extension would allow sufficient time to complete the construction and start the operation of the Project's textile plant component.

Background

2. The Ulla Ulla Project was designed to develop the alpaca/llama industry, to improve the economic and social conditions of the rural families (3,000) in the project area, and to benefit a larger population through improved marketing of the primary wool products and improvements in artisan wool handicraft activities. The combined Loan/Credit of \$18 million included investments in wool collection, classification, and processing of yarn, credit for livestock and artisanal handicraft improvement, social infrastructure (health centers, potable water, education), productive support (roads, training, extension services, applied research) and institutional support for INFOL, the implementing agency. The textile plant, therefore, constitutes an important link in a comprehensive chain of activities encompassing production, classification and processing of raw materials as well as production and marketing of yarn. The plant's total cost has risen to about US\$10.5 million, more than double the estimated cost at appraisal (US\$4.4 million). The increase resulted largely from (i) a 55% increase in the international price of the plant equipment; (ii) the need to purchase accessory equipment essential for the operation of the plant (e.g. electrical substation) which was not foreseen at appraisal; and (iii) cost overruns arising from "start-up" project implementation delays. Also, the delays in declaring the Loan effective, and the two years spent in putting into place an organizational structure for INFOL, a newly created institution, contributed to impeding the plant's construction.

Loan Financing of the Plant

3. In the second half of 1984 the Government requested the Bank to reallocate the remaining Loan proceeds in order to finance the purchase of the plant's accessory equipment and required consultant services. The

original Loan allocation for the plant, which has been fully disbursed, was not sufficient to cover these expenditures. An economic reassessment demonstrated that the plant had satisfactory rates of return under reasonable assumptions on exchange rate, alpaca yarn price developments and management efficiency. We agreed in principle to reallocate the remaining Loan proceeds contingent on Government actions including among others (i) establishment of institutional arrangements to ensure a commercially-oriented plant operation; (ii) commitment to provide the necessary counterpart funds to project completion; (iii) commitment to hire managerial consultants to fill up the posts of general manager, marketing manager, production manager and plant maintenance supervisor for the first two years of plant operation and an administrative manager for one year; (iv) submission of a detailed program of financing the purchase and collection of alpaca, llama and sheep wool for the start-up operation of the plant; (v) submission of a training plan to prepare qualified Bolivians to take over plant management functions after the management consultants' term; and (vi) submission of cost recovery plan for Government's investment in the plant. The Government issued the requisite instructions and took the necessary steps to comply satisfactorily with these conditions.

4. Hence, in February 1985 the remaining Loan funds (about US\$7.5 million) were reallocated to finance the plant's accessory equipment (US\$4.2 million) and consultant services (US\$0.9 million) while maintaining a reasonable level of support for the production and social components of the Project (US\$2.4 million). This reallocation was approved under the assumption that the construction of the plant would take about 18 months and thus would entail an extension of the Project's Closing Date till end 1986. The Government was informed, however, that this extension would be contingent on satisfactory Project progress.

Recent Project Performance

5. The Project performed notably well in the past six months despite the country's unstable political and economic situation and frequent nationwide general strikes. The Government has kept its commitment to provide the necessary budgetary and administrative support demonstrating the high priority accorded to the Project. The new manager of INFOL, appointed in January, is proving to be more efficient and action-oriented than the previous manager. All vacant technical positions in INFOL have been filled up and field post allowances have been raised in order to arrest staff turnover.

6. Production Component. The Project's production component has been revitalized with the increase in extension services and introduction of cost effective technical assistance to the livestock producers. As previously programmed, seven technical assistance centers strategically located in the project area are being constructed. Each center will house an extension service office, a gathering post for the alpaca/llama fiber being sold by the livestock farmer to the project and a store where veterinary and agrochemical products which compose part of the production subloan, would be provided to the farmers. With the provision of adequate counterpart funds which would allow INFOL to purchase the required supplies in time and a more aggressive extension service, these subloans are expected to move faster than in the past.

7. Processing Component. The Government has provided all the required funds for the civil works construction of the textile plant. The bid has been awarded in the first week of June and construction is thus expected to be completed by September 1986. Bids for the accessory equipment have been opened and award is scheduled in July. In line with the Government's instruction to establish the plant as a mixed enterprise, INFOL is now finalizing the by-laws specifying a 51%-49% INFOL private sector share in the plant's ownership. The private sector would be composed of alpaca producers, artisans and private individuals. INFOL has also already initiated the invitation of candidates from nine foreign firms for the management team of the plant. INFOL's current fiber stock is sufficient for the first year start-up operation. In addition, the Government committed to provide US\$280,000 for the purchase of raw materials (alpaca/llama/wool fiber) for the succeeding two year operation. INFOL would submit to the Bank a plan specifying the approximate date, volume and amount of purchase.

8. Social Component. The accomplishments under these components (education, health, solar energy, sanitation and vicuna conservation) have been satisfactory. Remaining civil works construction for ten schools and a medical post, installation of 60 water supply and 60 waste disposal systems, as well as the undertaking of some training courses will be completed by mid-1986.

Recommendations

9. While the Project is being executed satisfactorily, the textile plant could not be operated profitably at the present exchange rate. The satisfactory devaluation at the time of our agreement to reallocate has been eroded. However, we recommend to continue with Project implementation in the expectation that the new Government to be elected in July 1985 will have set a realistic exchange rate by the time the plant starts operation in late 1986. On country grounds, it is important that the Bank maintain its support for the Ulla Ulla Project which has a high visibility in Bolivia. The Bank has not had a new operation in Bolivia since June 1980; as a consequence, the net resource transfer has been negative since FY84 and even net disbursements have become negative in FY85. Since the Government is exerting notable efforts to respond to the Bank's conditions and to facilitate the Project's implementation, I recommend, with the agreement of the Department's concerned to extend the Closing Date to March 31, 1986 and to advise the Government that the Bank would be willing to grant a further and final extension to December 31, 1986, provided the project is executed satisfactorily. The review would include an assessment of the adequacy of the exchange rate.

Cleared with and cc: Messrs. van Gigch, LCPDR; Thornley, LCPAC; Velic, LEG

cc: Messrs. Gue (o/r), LC2DR; Otten (o/r), Plaza, LCPAC; Torres, LOA

EJavier/PRScherer:vv

OFFICE MEMORANDUM

DATE: June 20, 1985

TO: Mr. Ernest Stern
(through Mr. A. David Knox)

FROM: Fred Levy, Acting Director, LC2 *FL*

EXT.: 72015

SUBJECT: BOLIVIA - Suspension of Disbursements - Follow-up Request

1. Further to our June 17 memorandum (copy attached) to you on the above, I would like to inform you that the ENFE payments (US\$1.5 million due April 1) were not made on Tuesday (June 18) as promised by the Central Bank (CB) President because the Central Bank staff are on strike. The CB President, called Mr. Scherer late Tuesday afternoon to advise him of the situation and to request that the Bank hold the disbursement suspension since he believes that the strike would be over by Friday and that payments could be made by Monday (June 24). The CB Board of Directors has approved the loan to cover ENFE's payments.

2. As we have previously informed you, Bolivia paid last week an amount of US\$3.8 million covering all outstanding payments till June 15 except for the aforementioned ENFE loans, a loan due May 1 (US\$0.9 million) and three credits due May 15 (US\$91,000). We were informed that the Ministry of Finance has also approved release of foreign exchange for the May 1 payment and would approve release for the May 15 payment. In view of the Government's serious efforts to comply with its obligations to us under very difficult circumstances and the plea of the CB President not to suspend because of adverse political consequences, we recommend to hold the telex until c.o.b. Tuesday, June 25. This would provide sufficient time for verification of payments. However, should the Government not have issued payment instructions by Monday, the telex would be sent out by c.o.b. that day.

gk
ES
6/20

Cleared with and cc: Mr. Velic, LEG.

cc: Messrs. Shihata, Goldberg, Collell, LEG; Gue, LC2 (o/r); van Gigch, LCPDR; Subramanian, Markham, LOALA; Mayer, Torres, LOALE; Topolsky, Wijesinghe, Akingbade, CSH; Ms. Lamadrid, LC2DR.

PRScherrer/EJavier:vlw

OFFICE MEMORANDUM

DATE: June 17, 1985

TO: Mr. Ernest Stern

(through Mr. A. David Knox)

FROM: Fred Levy, Acting Director, LC2

EXT.: 72011

SUBJECT: BOLIVIA - Suspension of Disbursements

1. On June 3, 1985, we advised the Bolivian Government that payments amounting to US\$2,863,697.53 due April 1 were 60 days overdue and, hence, disbursements will be suspended on June 17 if by that date there are payments outstanding on any Loans or Credits made to, or guaranteed by, the Government of Bolivia. The April payments are held up in part because ENFE (the railway company) has not made the requisite peso payments (equivalent to US\$1.5 million). We have been informed that the Ministry of Finance, the Guarantor for ENFE's loans, has initiated a request for a Central Bank credit to cover the peso payments. In addition, the Central Bank President promised Mr. Scherer that part of the April payments would be made by Friday (June 14) and those pertaining to ENFE would be made Tuesday (June 18). The Central Bank President has always been able to deliver on his commitments to us in the past. Today, we were informed by BLADEX of Panama that, based on Central Bank instructions, they transferred to our account in the Federal Reserve Bank last Friday an amount of US\$3,774,273.04 covering all outstanding payments up to June 15 except for the abovementioned ENFE loans (due April 1), ENDE IV Power Loan (US\$0.9 million due May 1) and three credits (US\$91,000 due May 15).

2. Considering the various problems and social turmoil facing the Bolivian authorities, particularly in these few weeks before the presidential elections (scheduled July 14), the outgoing Government is making commendable efforts to comply with its payments to us. In view of these developments, I recommend to hold the telex on disbursement suspension until c.o.b. Thursday, June 20 to give us sufficient time to verify whether payment instructions for the ENFE loans have been issued by the Central Bank to BLADEX and whether the latter has transferred the required amount to the Federal Reserve Bank. In case we receive confirmation of payments for ENFE's loans, I recommend to waive the condition that all outstanding obligations (aforementioned May 1 and 15 payments) be paid to avoid disbursement suspension.

Cleared with and cc: Messrs. Scherer, LC2PB; Velic, LEG.

cc: Messrs. Shihata, Goldberg, Collell, LEG; van Gigch, LCPDR; Scherer, LC2PB; Subramanian, Markham, LOALA; Mayer, Torres, LOALE; Topolsky, Wijesinghe, Akingbade, CSH; Ms. Lamadrid, LC2DR.

lv
EJavier:vlw

OFFICE MEMORANDUM

2 ✓

DATE: June 3, 1985

TO: Mr. Andre R. Gue, Director, LC2

FROM: Peter R. Schefer, Division Chief, LC2PB

EXT.: 76251

SUBJECT: BOLIVIA - Telex on Possible Disbursement Suspension

1. Last Friday (May 31) we informed Mr. Stern that we would send the 60-day warning telex by c.o.b. today in case there is no indication that the Government could pay the outstanding amount of US\$2,863,697.53 in the next few days (see attached memo). The Central Bank representatives who were in Washington last week advised us that the payments are held up because ENFE (the railway company) has not made the requisite peso payments (equivalent to more than US\$1.5 million). The Central Bank Board of Directors are meeting sometime this week to decide if a credit could be provided to the National Government, the Guarantor for ENFE's loan, for the peso payments. Their best estimate is that it may take about 15 days before the payments could be remitted to the Bank.

2. Since the Government will not make the outstanding payments within this week, please sign the attached 60-day warning telex of disbursement suspension. If the payments are received before the 75th day we would request another reprieve from Mr. Stern that the Bolivians not be required to pay all the outstanding obligations to avoid disbursement suspension.

Attachments

cc: Messrs. Stern, Knox, Goldberg, van Gigch, LCPDR; Collell, Velic, LEG; Mayer, Subramanian, Markham, Torres, LOA; Topolsky, Wijesinghe, Akingbade, CSH; Ms. Lamadrid, LC2DR.

EJavier:vlw

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1 OF 4

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(FOR CASHIER'S USE ONLY)

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OINFO

-SUBJECT: BOLIVIA - 60-DAY WARNING NOTICE

-DRAFTED BY: VLWILCHER

-AUTHORIZED BY: ANDRE R. GUE, DIRECTOR, LC2

-CLEARED AND CC: MESSRS. GOLDBERG, COLLELL, VELIC, LEG;

-WIJESINGHE, AKINGBADE, CSH; TORRES, MARKHAM/SUBRAMANIAN, LOA.

-CC: MESSRS. STERN, KNOX, VAN GIGCH, LCPDR; SCHERER, NISSENBAUM

-LC2PB; MAYER, LOA; TOPOLSKY, CSH; MS. LAMADRID, LC2

-CC: MR. CORTI, EDS

355 2617 =

-MINISTRY OF FINANCE

-LA PAZ, BOLIVIA

-ATTENTION: LIC. FRANCISCO BELMONTE, MINISTER OF FINANCE, AND

-SR. EMILIO RUIZ, SUBSECRETARY OF FINANCE

355 2286 =

-CENTRAL BANK OF BOLIVIA

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OF
TEXT

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INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE:

TELEX NO.:

DATE:

SUBJECT:

DRAFTED BY:

EXTENSION:

CLEARANCES AND COPY DISTRIBUTION:

AUTHORIZED BY (Name and Signature):

DEPARTMENT:

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-ATTENTION: LIC. REYNALDO CARDOZO, PRESIDENT; SR. JOSE
 -CERVANTES, MANAGER; AND LIC. RAUL FLORES, DIVISION CHIEF
 355 2584 =
 IBRDLAP
 -ATTENTION: MRS. ANA MARIA PAZ
 BT
 WASHINGTON DC - 03-JUNE-85
 ADDRESSED TO MESSRS. BELMONTE, RUIZ, CARDOZO, CERVANTES, AND
 FLORES FOR INFO MRS. PAZ. AS OF TODAY, JUNE 3, 1985, THERE ARE
 SEVEN SERVICE PAYMENTS OVERDUE AND OUTSTANDING FOR MORE THAN
 SIXTY DAYS AS FOLLOWS COLON
 CREDIT 762-0, ULLA ULLA RURAL DEV., USDOLLARS 33,750.00 DUE
 APRIL 1, 1985
 CREDIT 940-0, NATIONAL MINERAL EXPLORATION, USDOLLARS 5,401.64
 DUE APRIL 1, 1985
 CREDIT 948-0, SANTA CRUZ WATER SUPPLY AND SEWERAGE, USDOLLARS
 18,711.32 DUE APRIL 1, 1985
 LOAN 1489-0, URBAN DEVELOPMENT, USDOLLARS 870,632.71 DUE APRIL
 1, 1985
 LOAN 1510-0, ULLA ULLA RURAL DEV., USDOLLARS 364,740.83 DUE
 APRIL 1, 1985

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CLASS OF SERVICE:	TELEX NO.:	DATE:
SUBJECT:	DRAFTED BY:	EXTENSION:
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PAGE 3 OF 4

OFFICIAL DEPT./DIV ABBREVIATION LC2PB

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3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22

LOAN 1422-0, RAILWAYS III, USDOLLARS 1,431,717.68 DUE APRIL 1, 1985

LOAN 1422-5, RAILWAYS III, USDOLLARS 138,743.35 DUE APRIL 1, 1985

PLEASE NOTE THAT THE FOLLOWING SERVICE PAYMENTS ARE ALSO OVERDUE COLON

DUE APRIL 15, 1985

LN. 1587-0, HIGHWAY MAINTENANCE, USDOLLARS 1,373,113.10

CR. 433-0, ENDE III POWER, USDOLLARS 52,172.50

DUE MAY 1, 1985

CR. 61-0, ENDE I POWER, USDOLLARS 221,145.53

CR. 62-0, BPC POWER, USDOLLARS 110,572.77

LN. 1238-0, ENDE IV POWER, USDOLLARS 928,080.00

DUE MAY 15, 1985

CR. 107-0, BENI LIVESTOCK, USDOLLARS 20,380.25

CR. 171-0, SECOND BENI LIVESTOCK, USDOLLARS 13,719.25

CR. 261-0, THIRD LIVESTOCK DEVELOPMENT, USDOLLARS 57,248.29

DUE JUNE 1

CR. 933-0, OMASUYOS LOS ANDES, USDOLLARS 8,747.73

DUE JUNE 3

LN. 1404-0, EDUCATION I, USDOLLARS 642,997.35

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CLASS OF SERVICE:		TELEX NO.:		DATE:	
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PAGE 4 OF 4

OFFICIAL DEPT/DIV ABBREVIATION LC2PB

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TEST NUMBER (FOR CASHIER'S USE ONLY)

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ON JUNE 15, 1985 THE FOLLOWING PAYMENT WILL BECOME DUE CREDIT 148, ENDE II POWER, USDOLLARS 72,287.56

IN ACCORDANCE WITH THE BANK/IDA PRACTICE, WE HEREBY NOTIFY YOU THAT PURSUANT TO SECTIONS 6.02 OF THE GENERAL CONDITIONS APPLICABLE TO LOAN AND GUARANTEE AGREEMENTS AND THE GENERAL CONDITIONS APPLICABLE TO DEVELOPMENT CREDIT AGREEMENTS, DISBURSEMENTS WILL BE SUSPENDED ON ALL LOANS OR CREDITS TO, OR LOANS GUARANTEED BY, THE REPUBLIC OF BOLIVIA THAT ARE STILL DISBURSING, IF AS OF JUNE 17, 1985 THERE REMAIN PAYMENTS OUTSTANDING ON ANY LOANS OR CREDITS MADE TO, OR LOANS GUARANTEED BY, THE REPUBLIC OF BOLIVIA. PLEASE NOTE THAT UNDER SEPARATE COMMUNICATIONS WE WILL ADVISE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (COFINANCIER UNDER CR. 933-B0) AND EUROPEAN ECONOMIC COMMUNITY (COFINANCIER UNDER CR. 762-B0 AND LN. 1510-B0) ON THIS ACTION. THEREFORE I URGE THAT EVERY EFFORT BE MADE TO SETTLE SUCH PAYMENTS TO AVOID A REPETITION OF THE SEVERE DISRUPTIONS TO PROJECT IMPLEMENTATION CAUSED BY THE LAST SUSPENSION. BEST REGARDS, ANDRE R. GUE, DIRECTOR, COUNTRY PROGRAMS DEPARTMENT, LATIN AMERICA AND THE CARIBBEAN, INTBAFRAD

END OF TEXT

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INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE: Telex	TELEX NO.:	DATE: 6/03/85
SUBJECT: BOLIVIA - 60-DAY Warning Telex	DRAFTED BY: VLWilcher	EXTENSION: 78009
CLEARANCES AND COPY DISTRIBUTION:	AUTHORIZED BY (Name and Signature): Andre R. Gue	
	DEPARTMENT: LC2	
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OFFICE MEMORANDUM



DATE: May 31, 1985

TO: Mr. Ernest Stern

THROUGH: A. David Knox

FROM: Roberto Gonzalez Cofino, Acting Director, LC2

EXT.: 72031

SUBJECT: BOLIVIA - Overdue Payments

1. The Government paid all the March outstanding obligations amounting to US\$3.7 million. The April 1 payments, however, amounting to US\$2,863,697.53 will be 60 days overdue by June 3.

2. The Central Bank has informed us that they are ready to send out the payments once the Committee on Foreign Exchange Allocation headed by the Minister of Finance issues the required authorization. We have tried several times to contact the Minister of Finance to no avail. He is now in Cochabamba Province negotiating with the trade unions to call off a general strike which has resulted in total electricity cut-off and paralyzed all economic activities in that area. There are no indications that the negotiations will be concluded soon. We have been advised that no other person in the Ministry can make the decision in his absence.

3. We will follow up the matter with the Central Bank President who will be in Washington today. If no positive developments occur, we will send the 60-day warning telex by c.o.b. June 3.

Cleared with and cc: Mr. B. Velic (LEG)

cc: Messrs. Goldberg, Gue, LC2 (o/r); van Gigch, LCPDR; Collell, LEG; Scherer, LC2PB (o/r); Subramanian, Markham, Torres, LOA; Topolsky, Wijesinghe, Akingbade, CSH; Ms. Lamadrid, LC2DR;

EJavier:md

OFFICE MEMORANDUM

DATE: May 15, 1985

TO: Mr. Warren C. Baum, Acting SVPOP

THROUGH: (Mr. S.M.L. van der Meer, Acting RVP, IAC)

FROM: Roberto Gonzalez Cofino, Acting Director, LC2

EXT.: 72031

SUBJECT: BOLIVIA - Overdue Payments

ok
ES
5/22/85

1. Further to our memorandum to Mr. Husain dated May 7, 1985 on the possible suspension of disbursements to Bolivia, I would like to inform you that the Government has now paid all debt service obligations outstanding on March 1 (\$3.7 million) including the amount of US\$526,225.35 which was 60 days overdue on May 1. In view of this development, I propose that we grant the Bolivians a reprieve from the requirement that all debts outstanding at the time of payment receipt be paid in order to avoid disbursement suspension.

2. In December 1984 and March 1985, Mr. Stern agreed to grant them such a reprieve for the remaining outstanding payments which at that time were less than 30 days. This was in line with his instructions dated September 20, 1983 (memo to Mr. Barletta on Overdue Payments). This time, however, of the US\$4.6 million still outstanding service payments, US\$2.9 million have been due for 45 days. Nevertheless, we believe that this reprieve would show our support and encouragement for the serious efforts of the Government to comply with its obligations with us under very difficult circumstances and tight foreign exchange situation.

Cleared with and cc: Mr. Velic, LEG

cc: Messrs. Stern, (o/r); Knox (o/r); Goldberg; Collell, LEG; Gue (o/r), Scherer, LC2; Subramanian, Markham, Torres, LOA; Topolsky, Wijesinghe, Akingbade, (Mrs.) Pan, CSH; Ms. Lamadrid, LC2DR.

EJavier:vlw

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

5-21
5/2/85

5/7
Mr. Scherer - K down.
I may be a minor
But still.
OK. Please Mr. Stern
Consult Mr. Stern
on his return
Mr. Gurr

DATE: May 7, 1985

TO: Mr. S. Shahid Husain, Acting SVPOP

THROUGH: A. David Knox

FROM: Andre R. ~~Die~~ ^{Am}, Director, LC2

EXT.: 72011

SUBJECT: BOLIVIA - Overdue Payments

1. The Government has paid all debt service obligations outstanding on March 1 totalling US\$3,245,351.21, except for one payment amounting to US\$526,225.35 (Loan 1290-BO) which was 60 days overdue on May 1. We issued the 60-day warning telex of disbursement suspension on May 3 since the Government was not able to make the deposit, as the Minister of Finance had promised.

2. To avoid disbursement suspension, the Bolivian Government has to pay US\$5.1 million by c.o.b. May 15. In view of the commendable efforts of the Government to meet its obligations with the Bank under very difficult circumstances, I propose that, in case the March 1 outstanding payment arrives before May 15, we grant the Bolivians a reprieve from the requirement that all debts outstanding at the time of payment receipt be paid in order to avoid disbursement suspension. Mr. Stern agreed to such a procedure in similar situations in December 1984 and March 1985.

cc: Messrs. Stern, (o/r); Goldberg; Collell, Velic, LEG; van der Meer, LCPDR; Scherer, LC2; Subramanian, Markham, Torres, LOA; Topolsky, Wijesinghe, Akingbade, (Mrs.) Pan, CSH; Ms. Lamadrid, LC2DR.

^{40x}
EJavier:vlw

OFFICE MEMORANDUM

DATE: March 12, 1985

TO: Mr. Ernest Stern
(through Mr. A. David Knox)

FROM: Andre R. ~~Ad~~ Director, LC2

EXT.: 72011

SUBJECT: BOLIVIA - Suspension of Disbursements

OK
3/14/85

Subsequent to my memo of March 8, 1985, we are pleased to inform you that, as promised by the Bolivian Government, the two outstanding payments totalling US\$1,518,119.60 were received on March 11, 1985. We will, therefore, as proposed in our March 8 memo and approved by you (attachment) grant the Bolivians a reprieve from the requirement that all other debts outstanding at the time of payment receipt be paid in order to avoid suspension of disbursements.

Attachment

cc: Messrs. Goldberg; van der Meer, LCPDR; Collell, Velic, LEG;
Subramanian, Markham, Torres, LOA; Topolsky, Wijesinghe,
Akingbade, (Mrs.) Pan, CSH; Scherer, LC2 (o/r);
Nissenbaum, LC2 (o/r); Ms. Javier, LC2; Ms. Lamadrid, LC2.

cal
VLWilcher/AMates

OFFICE MEMORANDUM

E. Javier

OK

ES

3/8/85

Amel

DATE: March 8, 1985

TO: Mr. Ernest Stern
(through Mr. A. David Knox)

FROM: Andre R. Gut, Director, LC2

EXT.: 72011

SUBJECT: BOLIVIA - Suspension of Disbursements

1. The Central Bank President, who is now in Washington, assured us that he gave instructions to pay the US\$1,518,119.60 which are overdue as of January 2, 1985 and that funds are available following a recent transfer from the Andean Reserve Fund. However, because of the recent strike of ENTEL, the telex/telephone company in Bolivia, the payment orders could not be sent out to the correspondent bank. The Central Bank President expects that the ENTEL strike will be over this week and that the payments would be deposited by not later than Wednesday next week. The Central Bank has approved these payments despite the Borrower's (ENFE, the public railways company) inability to make the requisite peso deposits with the Central Bank. In addition, the Government has paid all debt service obligations up to end-February totalling US\$1.9 million. Only the ENFE loans and the March 1 payments remain outstanding.

2. Although the Government has made commendable efforts to meet its obligations with the Bank, we shall send the attached telex by c.o.b. Friday, March 8, 1985. At present, telex messages are not accepted by ENTEL. It would, of course, be ironic if our telex would be delivered, once the strike is over, at the precise moment when the Bolivian payment instructions are issued. Nonetheless, we would be on record for having tried to inform the Government of a pending suspension unless payments had been made by March 18. In case the January 2, 1985 payments arrive next week, I propose that we grant the Bolivians a reprieve from the requirement that all debts outstanding at the time of payment receipt (US\$4,099,881.60 became due on March 1 and US\$54,017.50 will fall due on March 15) be paid in order to avoid suspension of disbursements. In a similar situation in December 1984, you had agreed to such a procedure.

Attachment

cc: Messrs. Goldberg; van der Meer, LCPDR; Collell, Velic, LEG;
Subramanian, Markham, Torres, LOA; Topolsky, Wijesinghe, Akingbade,
(Mrs.) Pan, CSH; Ms. Javier, LC2; Ms. Lamadrid, LC2.

4/8
EJavier/PRScherer:vlw

OFFICE MEMORANDUM

DATE: March 8, 1985

TO: Mr. Ernest Stern
(through Mr. A. David Knox)
FROM: Andre R. ~~Gie~~ Director, LC2

EXT.: 72011

SUBJECT: BOLIVIA - Suspension of Disbursements

1. The Central Bank President, who is now in Washington, assured us that he gave instructions to pay the US\$1,518,119.60 which are overdue as of January 2, 1985 and that funds are available following a recent transfer from the Andean Reserve Fund. However, because of the recent strike of ENTEL, the telex/telephone company in Bolivia, the payment orders could not be sent out to the correspondent bank. The Central Bank President expects that the ENTEL strike will be over this week and that the payments would be deposited by not later than Wednesday next week. The Central Bank has approved these payments despite the Borrower's (ENFE, the public railways company) inability to make the requisite peso deposits with the Central Bank. In addition, the Government has paid all debt service obligations up to end-February totalling US\$1.9 million. Only the ENFE loans and the March 1 payments remain outstanding.

2. Although the Government has made commendable efforts to meet its obligations with the Bank, we shall send the attached telex by c.o.b. Friday, March 8, 1985. At present, telex messages are not accepted by ENTEL. It would, of course, be ironic if our telex would be delivered, once the strike is over, at the precise moment when the Bolivian payment instructions are issued. Nonetheless, we would be on record for having tried to inform the Government of a pending suspension unless payments had been made by March 18. In case the January 2, 1985 payments arrive next week, I propose that we grant the Bolivians a reprieve from the requirement that all debts outstanding at the time of payment receipt (US\$4,099,881.60 became due on March 1 and US\$54,017.50 will fall due on March 15) be paid in order to avoid suspension of disbursements. In a similar situation in December 1984, you had agreed to such a procedure.

Attachment

cc: Messrs. Goldberg; van der Meer, LCPDR; Collell, Velic, LEG;
Subramanian, Markham, Torres, LOA; Topolsky, Wijesinghe, Akingbade,
(Mrs.) Pan, CSH; Ms. Javier, LC2; Ms. Lamadrid, LC2.

gry
EJavier/PRScherer:vlw

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(FOR CASHIER'S USE ONLY)

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BOOK OF FOUR TELEXES (SEE ATTACHED TEXT)

1. LIC. GUALBERTO MERCADO

MINISTER OF FINANCE

MINFINANZAS

LA PAZ, BOLIVIA

TELEX BX 2617

2. LIC. REYNALDO CARDOZO, PRESIDENT

LIC. RAUL FLORES, MANAGER, FINEX

CENTRAL BANK OF BOLIVIA

TELEX BX 2286 OR 2575 NAVIANA

3. ING. RAFAEL ICHAZU

GERENTE GENERAL

EMPRESA NACIONAL DE FERROCARRILES (ENFE)

LA PAZ, BOLIVIA

TELEX 2405 ENFE

FOR INFORMATION

4. MRS. ANA MARIA PAZ

INTBAFRAD

TELEX 2618 INBRDBOL

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OF
TEXT

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INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE:		TELEX NO.:	DATE:
SUBJECT:		DRAFTED BY:	EXTENSION:
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PAGE 1 OF 2

OFFICIAL DEPT./DIV ABBREVIATION LC2PB

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ADDRESSED TO MESSRS. MERCADO, CARDOZO, FLORES AND ICHAZU COPY FOR INFORMATION MRS. PAZ. AS OF TODAY, MARCH 8, 1985, THERE WERE TWO SERVICE PAYMENTS OVERDUE AND OUTSTANDING BY ENFE AND REPUBLIC OF BOLIVIA TO THE BANK AND IDA, RESPECTIVELY, FOR MORE THAN SIXTY DAYS FOR USDOLLARS 1,448,614.00 UNDER LOAN NO. 1121-0-B0 (RAILWAYS II PROJECT) AND USDOLLARS 69,505.00 UNDER CREDIT NO. 346-B0 (RAILWAYS I PROJECT). ALSO PLEASE NOTE THAT THE FOLLOWING SERVICE PAYMENTS ARE ALSO OVERDUE COLON CREDIT 561-0-B0, AGRICULTURAL CREDIT, USDOLLARS 27,885.63 DUE MARCH 1 LOAN 1290-0-B0, BISA II, USDOLLARS 526,225.35 DUE MARCH 1 LOAN 1324-0-B0, WATER SUPPLY AND SEWERAGE, USDOLLARS 265,260.99 DUE MARCH 1 LOAN 1423-0-B0, AVIATION DEVELOPMENT, USDOLLARS 1,345,242.13 DUE MARCH 1 LOAN 1865-B0, STRUCTURAL ADJUSTMENT LOAN, USDOLLARS 1,031,250.00 AND JAPANESE YEN 220,844,559 DUE MARCH 1. IN ACCORDANCE WITH THE BANK/IDA PRACTICE, I HAVE TO NOTIFY YOU HEREBY THAT PURSUANT TO SECTIONS 6.02 OF THE GENERAL CONDITIONS APPLICABLE TO LOAN AND GUARANTEE AGREEMENTS AND THE GENERAL

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SUBJECT:	DRAFTED BY:	EXTENSION:
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OFFICIAL DEPT/DIV
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CONDITIONS APPLICABLE TO DEVELOPMENT CREDIT AGREEMENTS,
 DISBURSEMENTS WILL BE SUSPENDED ON ALL LOANS OR CREDITS TO, OR
 LOANS GUARANTEED BY, THE REPUBLIC OF BOLIVIA THAT ARE STILL
 DISBURSING, IF AS OF MARCH 18, 1984 THERE REMAIN PAYMENTS
 OUTSTANDING ON ANY LOANS OR CREDITS MADE TO, OR LOANS
 GUARANTEED BY, THE REPUBLIC OF BOLIVIA. PLEASE NOTE THAT UNDER
 SEPARATE COMMUNICATIONS WE ARE ADVISING INTERNATIONAL FUND FOR
 AGRICULTURAL DEVELOPMENT (COFINANCIER UNDER CR 933-B0) AND
 EUROPEAN ECONOMIC COMMUNITY (COFINANCIER UNDER CR 762-B0 AND LN.
 1510-B0) ON THIS ACTION. THEREFORE I URGE THAT EVERY EFFORT BE
 MADE TO SETTLE SUCH PAYMENTS TO AVOID A REPETITION OF THE SEVERE
 DISRUPTIONS TO PROJECT IMPLEMENTATION CAUSED BY THE LAST
 SUSPENSION. BEST REGARDS, ANDRE R. GUE, DIRECTOR, COUNTRY
 PROGRAMS DEPARTMENT, LATIN AMERICA AND THE CARIBBEAN, INTBAFRAD.

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CLASS OF SERVICE: Telex		TELEX NO.:	DATE: 3/8/85
SUBJECT: BOLIVIA - 60-day warning		DRAFTED BY: VLeow-Wilcher	EXTENSION: 78009
CLEARANCES AND COPY DISTRIBUTION: cc: Mr. Corti Clrd.with & cc: Messrs. Goldberg, Collell, Velic, LEG; Wijesinghe, CSH; Torres, LOA Markham/Subramanian, LOA. cc: Messrs. Stern, Knox, vander Meer, Topolsky, Akingbade, Mrs. Pan, Ms. Lamadrid		AUTHORIZED BY (Name and Signature): Andre R. Gue	
		DEPARTMENT: LC2	
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OFFICE MEMORANDUM

DATE: December 21, 1984

TO: Mr. Ernest Stern

(through Mr. Rainer B. Steckhan, Acting RVP, LAC)

FROM: Roberto Gonzalez Cofino, Acting Director, LC2

EXT.: 72031

SUBJECT: BOLIVIA - Disbursement Suspension
Overdue Debt Service Payments for December 1984

Subsequent to my memo of December 18, 1984, I am pleased to inform you that all outstanding payments have been received. Bolivia is now current in her debt service payments to the Bank.

cc: Messrs. Shihata, Gue (o/r); van der Meer, LCP; Goldberg, Collell, LEG; Subramanian, Markham, LOALA; Torres, LOALE; Topolsky, Wijesinghe, Mrs. Pan, CSHRP; Zagha, LC2PB; Ms. Javier, LC2PB; Ms. Lamadrid, LC2.

VLWilcher/PRScherer

OFFICE MEMORANDUM

DATE: December 18, 1984

TO: Mr. Ernest Stern
(through Mr. A. David Knox)

FROM: Roberto Gonzalez Cofino, Acting Director, LC2

EXT.: 72031

SUBJECT: BOLIVIA - Disbursement Suspension

1. Bolivia has now settled all debt service payments that were outstanding in October (US\$1,742,172.80) and November (US\$1,497,753.50). In the meantime, however, payments amounting to US\$727,920.68 for one loan and two credits became due in the first two weeks of December. Mr. Scherer discussed this matter today with the Minister of Planning and the President of the Central Bank. They promised that the payments would be made as soon as Bolivia has received an Argentine payment for gas exports, which is expected for deposit this week.

2. In view of this commitment and taking into account that the Government has been making a serious effort to comply with the debt servicing requirement to the Bank and that outstanding arrears are less than 30 days, I recommend that we do not suspend disbursements to Bolivia. This recommendation is in line with your instruction (your memorandum to Mr. N. Barletta dated September 20, 1983) that the Bank may choose not to invoke suspension if some payments of less than 30 days remain.

Cleared with and cc: Mr. Velic, LEG.

cc: Messrs. Shihata, Gue (o/r); van der Meer, LCP; Goldberg, Collell, LEG; Subramanian, Markham, LOALA; Torres, LOALE; Topolsky, Wijesinghe, Mrs. Pan, CSHRP; Zaha, LC2PB; Ms. Javier, LC2PB; Ms. Lamadrid, LC2.

EJavier/PRScherer:vlw

OFFICE MEMORANDUM

OK/RC

*OK
ES
12/14/84*

DATE: December 13, 1984

TO: Mr. Ernest Stern
(through Mr. A. David Knox)

Amey
Reed

FROM: Roberto Gonzalez-Cofino, Acting Director, LC2

EXT.: 72031

SUBJECT: BOLIVIA - Suspension of Disbursements

1. The Central Bank has informed Mr. Scherer that instructions were issued on December 12 to pay Loans 1422-0 (US\$1,593,400.00) and 1422-5 (US\$148,772.80) which were overdue since October 1. The Central Bank is planning to pay the remaining debt service payments according to the following schedule:

<u>Loans/Credits</u>	<u>Amount</u> US\$	<u>Date Due</u>	<u>Proposed</u> <u>Payment Date</u>
Credit 61-0-B0	221,665.77	11/01/84	December 14
62-0-B0	110,832.89	11/01/84	December 14
107-0-B0	20,418.41	11/15/84	December 14
171-0-B0	13,758.12	11/15/84	December 14
261-0-B0	57,409.45	11/15/84	December 14
Loan 1238-0-B0	1,073,668.86	11/01/84	December 17

2. To allow for confirmation of the payments, we recommend to hold the telex advising the Bolivian Government of the suspension of disbursements until Tuesday, December 18.

cc: Messrs. Knox (o/r); Gue (o/r); van der Meer, LCP; Goldberg, Collell, Cucullu, LEG; Subramanian, Markham, LOALA; Torres, LOALE; Topolsky, Wijesinghe, Mrs. Pan, CSHRP; Zaghera, LC2PB; Ms. Javier, LC2PB; Ms. Lamadrid, LC2.

VLWilcher:vlw

OFFICE MEMORANDUM

12/17

~~also Paraguay~~

DATE: December 6, 1984

TO: Mr. S. Shahid Husain, Acting SVP, Operations

FROM: Rainer B. Steckhan, Acting RVP, LAC

Herkel

EXT.: 74621

SUBJECT: BOLIVIA - Overdue Payments

Pursuant to our conversation of last night, this is to confirm that we have this morning sent a "60-day warning" message to Bolivia regarding the overdue payments situation. As of November 30, 1984, there were two outstanding service payments of (1) US\$1,593,400.00 for Loan No. 1422-0-B0 and (2) US\$148,772.80 for Loan No. 1422-5-B0. Both have been overdue since October 1. We had deferred the sending of the "60-day warning" telex because of indications from the Government that it intended to pay and that the Central Bank was prepared to process the payment immediately. However, these indications have proven to be fruitless.

cc: Messrs. Stern (o/r); Goldberg; Knox (o/r); van der Meer, LCP; Collell, Cucullu, Velic (o/r), LEG; Scherer, LC2 (o/r); Subramanian, Markham, Torres, LOA; Topolsky, Wijesinghe, (Mrs.) Pan, CSH; Ms. Lamadrid, LC2DR.

VLWilcher/HJNissenbaum

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BOOK OF THREE TELEXES (SEE ATTACHED TEXT)

1. LIC. GUALBERTO MERCADO

MINISTER OF FINANCE

MINFINANZAS

LA PAZ, BOLIVIA

TELEX BX 2617

2. LIC. REYNALDO CARDOZO, PRESIDENT

LIC. RAUL FLORES, MANAGER, FINEX

CENTRAL BANK OF BOLIVIA

TELEX BX 2286 OR 2575 NAVIANA

FOR INFORMATION

3. MS. EVANGELINE JAVIER

INTBAFRAD

TELEX 2618 INBRDBOL

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CLASS OF SERVICE:

TELEX NO.:

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ADDRESSED TO MESSRS. MERCADO, CARDOZO AND FLORES COPY FOR
 INFORMATION MS. JAVIER. AS OF TODAY, DECEMBER 5, THERE ARE TWO
 SERVICE PAYMENTS OVERDUE AND OUTSTANDING FOR MORE THAN SIXTY DAYS
 FOR USDOLLARS 1,593,400.00 UNDER LOAN NO. 1422-0-B0 AND USDOLLARS
 148,772.80 UNDER LOAN NO. 1422-5-B0 (RAILWAYS III PROJECT). ALSO
 PLEASE NOTE THAT THE FOLLOWING SERVICE PAYMENTS ARE ALSO OVERDUE
 COLON

CR. 61-B0, ENDE POWER, USDOLLARS 221,665.77 DUE NOVEMBER 1
 CR. 62-B0, BPC POWER, USDOLLARS 110,832.89 DUE NOVEMBER 1
 LN. 1238-B0, ENDE IV POWER, USDOLLARS 1,073,668.86 DUE NOVEMBER 1
 CR. 107-B0, BENI LIVESTOCK, USDOLLARS 20,418.41 DUE NOVEMBER 15
 CR. 171-B0, SECOND BENI, USDOLLARS 13,758.12 DUE NOVEMBER 15
 CR. 261-B0, THIRD LIVESTOCK, USDOLLARS 57,409.45 DUE NOVEMBER 15.

IN ACCORDANCE WITH THE BANK/IDA PRACTICE, I HAVE TO NOTIFY YOU
 HEREBY THAT PURSUANT TO SECTIONS 6.02 OF THE GENERAL CONDITIONS
 APPLICABLE TO LOAN AND GUARANTEE AGREEMENTS AND GENERAL
 CONDITIONS APPLICABLE TO DEVELOPMENT CREDIT AGREEMENTS,
 DISBURSEMENTS WILL BE SUSPENDED ON ALL LOANS OR CREDITS TO, OR
 LOANS GUARANTEED BY, THE REPUBLIC OF BOLIVIA THAT ARE STILL

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CLASS OF SERVICE

TELEX NO.:

DATE:

SUBJECT:

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EXTENSION:

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AUTHORIZED BY (Name and Signature):

DEPARTMENT:

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WORLD BANK OUTGOING MESSAGE FOR Cable, Telex
IMPORTANT—PLEASE READ INSTRUCTIONS BELOW BEFORE TYPING FORM

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DISBURSING, IF AS OF DECEMBER 15, 1984 THERE REMAIN PAYMENTS
OUTSTANDING ON ANY LOANS OR CREDITS MADE TO, OR LOANS
GUARANTEED BY, THE REPUBLIC OF BOLIVIA. PLEASE NOTE THAT UNDER
SEPARATE COMMUNICATIONS WE ARE ADVISING INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT (COFINANCIER UNDER CR 933-BO) AND
EUROPEAN ECONOMIC COMMUNITY (COFINANCIER UNDER CR 762-BO AND LN.
1510-BO) ON THIS ACTION. THEREFORE I URGE THAT EVERY EFFORT BE
MADE TO SETTLE SUCH PAYMENTS TO AVOID A REPETITION OF THE SEVERE
DISRUPTIONS TO PROJECT IMPLEMENTATION CAUSED BY THE LAST
SUSPENSION. BEST REGARDS, ROBERTO GONZALEZ-COFINO, ACTING
DIRECTOR, COUNTRY PROGRAMS DEPARTMENT, LATIN AMERICA AND THE
CARIBBEAN, INTBAFRAD.

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CLASS OF SERVICE:		TELEX NO.:	DATE: Dec. 5, 1984
SUBJECT: Bolivia - Sixty days		DRAFTED BY: VLeow-Wilcher	EXTENSION: 73487
CLEARANCES AND COPY DISTRIBUTION: cc: Mr. Corti, EDS Cleared with & cc: Messrs. Goldberg, Collell, Velic, LEG; Torres, LOALE; Markham, LOALA; Wijesinghe, CSHRP cc: Messrs. Stern, Knox (o/r), Gue (o/r), van der Meer, Mrs. Pan, Ms. Javier, Lamadrid		AUTHORIZED BY (Name and Signature): R. Gonzalez-Cofino <i>[Signature]</i>	DEPARTMENT: LC2
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~~Ms. Stein~~

~~File~~

File

32 staff-weeks were spent on the report on pricing of investment policies & agriculture. That leaves another 38 staff-weeks spent on ESW in FY 84. That means one person spent almost the whole year on ESW in Bolivia.

E. Köpcke 9/15

OFFICE MEMORANDUM

DATE: September 5, 1984

TO: Mr. Ernest Stern

FROM: S. M. L. van der Meer, Director, LCPDR

EXT.: 75906

SUBJECT: BOLIVIA - Report on Pricing and Investment Policies
In Bolivian Agriculture

1. You inquired about the costs and the reasons for producing the above sector work while no lending for Bolivia is planned.
2. The ESW on Bolivia has consistently declined since the last SAL in June 1980. Man-weeks spent on ESW activities have gone down from 172 in FY80, to 121 in FY81, 77 in FY82, 67 in FY83 and 70 in FY84.
3. While attempting to reduce the ESW on Bolivia to a minimum, the region also felt it needed to:
 - (a) maintain a position where it could react and produce a meaningful lending program within a short period of time whenever country conditions would permit the resumption of lending; and
 - (b) keep a minimum level of dialogue with the Government. This dialogue allows the region to convey to the Government in a consistent way that the lack of operations is not caused by lack of interest in Bolivia, but by the lack of general macroeconomic policies which could provide the framework necessary to the successful execution of Bank projects.
4. These twin objectives require the Region to maintain itself abreast of sectoral developments, particularly in the sectors with great potential which could contribute to the economic reactivation of the economy: mining, hydrocarbons and agriculture.
5. In addition, the report also provides a technical basis for certain reforms in agricultural pricing policies which are now being initiated in Bolivia, e.g. reduction of subsidies for sugar, and realistic producer prices for certain agricultural commodities. While we cannot claim that these reforms resulted from our report, nor that the reforms currently planned go as far as recommended in the report, we do feel we are strengthening those forces who advocate for a more market oriented and dynamic environment in agriculture. The report also provides a basis on the policies which are needed to reactivate the agricultural sector, discussion which may become relevant if an IMF agreement is reached. The report was very well received among certain government officials and by USAID, which, for having an active lending program in agriculture, maintains an active dialogue with the Government on agricultural matters. They will most likely make their own most of the recommendations of the report.

6. The report was initiated, managed and produced by Programs, with Projects contribution in the form of 16 staff-weeks drawn from FAO/CP. Programs input consisted of 16 staff-weeks, giving a total cost of 32 staff-weeks which is an unusually low cost for a sector report. The region considers that this cost was worth the benefit of keeping a certain presence in Bolivia, and keeping ourselves updated on Bolivian sectoral developments.

Cleared with and cc: Mr. Carter, LC2; van Gigch, Ray, LCPDR

cc: Messrs. Gue, LC2DR; Otten, LCPAC; Pfeffermann, LCNVP; Scherer (o/r),
Ms. Javier, LC2PB

RZagha:vlw/md/vv

BOLIVIA

FORM NO. 709
(9-73)

WORLD BANK GROUP

ROUTING SLIP		DATE	7/10/84
FROM THE REGIONAL VICE PRESIDENT			
NAME		ROOM NO.	
<i>Mr. Perry</i>			
<i>Approved as proposed</i> <i>Shaw-Wisner</i> <i>Mr. Perry</i>			
APPROPRIATE DISPOSITION	NOTE AND RETURN		
APPROVAL	NOTE AND SEND ON		
COMMENT	PER OUR CONVERSATION		
FOR ACTION	PER YOUR REQUEST		
INFORMATION	PREPARE REPLY		
INITIAL	RECOMMENDATION		
NOTE AND FILE	SIGNATURE		
REMARKS			
<i>May I have your agreement please to resume disbursements to Bolivia.</i>			
<i>AKM</i>			
FROM			
A. D. Knox			

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: July 10, 1984

TO: A. David Knox

(through Mr. Roberto Gonzalez-Cofino, Act. Director, LC2)

FROM: Peter R. Scherer, Division Chief, LC2

EXT.: 76253

SUBJECT: BOLIVIA - Resumption of Disbursement

1. On June 29, the Bolivian Government issued instructions to pay the Bank US\$8,681,841.11 million and IDA US\$457,911.91 million for debt service payments due up to end June. The amount due to the Bank was credited on July 3. The amount due to IDA has not yet been received. Because of a previous overbilling, the payment made to the Bank exceeds the June arrears to the Bank by US\$2,957,106.73. We are in the process of securing Government authorization to apply part of the overpayment against the June IDA arrears.

2. It took considerable efforts to convince the Government to make the payment, which used up about two thirds of Bolivia's disposable reserves. Delays in Argentine payments for Bolivian gas exports have exacerbated an already serious cashflow squeeze. The union in the Central Bank had opposed vehemently the payment to the Bank because of the Bank's negative resource transfer to Bolivia.

3. As of today, payments totalling US\$4,739,110.37 million are overdue. The Ministers of Finance and Planning committed themselves that these arrears would be settled by the end of the month. I think they will deliver, provided Argentina transfers the US\$34 million it should have paid last month according to the February rescheduling agreement with Bolivia. I am in touch with the President of the Argentine Central Bank.

4. Withdrawal applications have reached approximately US\$5.1 million. Furthermore, we are planning to establish revolving funds (Special Accounts) for a few selected projects which, in the aggregate could reach US\$3.2 million.

5. I recommend that the Bank resume disbursement to Bolivia, notwithstanding Bolivia's failure to make the debt service payment due July 2, in view of the Government's valiant effort to clean up the arrears with the Bank under very difficult circumstances. If you agree, please send this memorandum together with the attached telex, for your signature, to Mr. Stern for his approval. The telex and the memorandum have been cleared by the Legal and Loan Departments.

Attachment

Cleared with and cc: Messrs. Goldberg, LEG; Torres, LOALE;

cc: Messrs. van der Meer, Glaessner, Jennings, van Gigch, Wessels, LCP; Pfeffermann, LCNVP; Collell, Velic, LEG; Carter, LC2; Subramanian, Drake, LOA; Topolsky, CSH; Zagha, LC2; Ms. Javier, LC2.

PRScherer:vlw

P.S. My back-to-office report will be with you shortly.

BOOK OF FOUR MESSAGES (SEE ATTACHED TEXT)

1. LIC. OSCAR BONIFAZ

MINISTER OF FINANCE

MINISTRY OF FINANCE

LA PAZ, BOLIVIA

TELEX 2617 FINANZA BV

2. LIC. ERNESTO ARANIBAR

MINISTER OF PLANNING

MINISTRY OF PLANNING

LA PAZ, BOLIVIA

TELEX 3280 MINCORD BV

3. LIC. FERNANDO PRADO

ACTING PRESIDENT

CENTRAL BANK OF BOLIVIA

LA PAZ, BOLIVIA

TELEX 2575 NAVIANA BV

FOR INFORMATION

4. MRS. ANA MARIA PAZ

INTBAFRAD

TELEX 2618 BX

I AM PLEASED TO INFORM YOU THAT THE BANK/IDA ARE RESUMING PROCESSING OF DISBURSEMENT REQUESTS UNDER BANK/IDA FINANCED PROJECTS AS OF _____. I WOULD LIKE TO EXPRESS MY APPRECIATION FOR YOUR EFFORTS UNDER DIFFICULT CIRCUMSTANCES TO SETTLE OUTSTANDING PAYMENTS TO THE BANK UP TO JUNE 30 TOTALLING APPROXIMATELY USDOLLARS 10.3 MILLION. HOWEVER, AS OF JULY 9 THERE ARE AMOUNTS OVERDUE AND OUTSTANDING UNDER THE FOLLOWING LOANS AND CREDITS MADE TO, AND LOANS GUARANTEED BY, BOLIVIA AS FOLLOWS COLON

- (1) LOAN 1331-5, SMALL-SCALE MINING, USDOLLARS 309,653.40 DUE 2/1/84
- (2) LOAN 1422-5, RAILWAYS III, DEUTSCHE MARKS 311,450.96 AND USDOLLARS 154,580.60 DUE 4/2/84.
- (3) LOAN 1404, EDUCATION AND VOCATIONAL TRAINING, USDOLLARS 679,853.02 DUE 6/1/84.
- (4) CREDIT 433, ENDE III POWER, USDOLLARS 52,408.00 DUE 4/16/84
- (5) CREDIT 61, ENDE I POWER, USDOLLARS 101,278.22 DUE 5/1/84
- (6) CREDIT 62, BPC POWER, USDOLLARS 50,638.61 DUE 5/1/84
- (7) CREDIT 107, BENI LIVESTOCK I, USDOLLARS 20,483.49
- (8) CREDIT 171, BENI LIVESTOCK II, USDOLLARS 13,774.51 DUE 5/15/84
- (9) CREDIT 261, LIVESTOCK DEVELOPMENT, USDOLLARS 57,478.24 DUE 5/15/84.
- (10) CREDIT 933, OMASUYOS RURAL DEVELOPMENT, USDOLLARS 7,223.00 DUE 6/1/84
- (11) CREDIT 148-BO, ENDE II POWER, USDOLLARS 72,647.84 DUE 6/15/84.
- (12) LOAN 1121-0, RAILWAYS II, USDOLLARS 3,099,958.25 DUE 7/2/84.

I TRUST THAT PAYMENT ON THESE ARREARS WILL BE RECEIVED BEFORE THE END OF JULY TO ENSURE CONTINUOUS DISBURSEMENTS UNDER BANK LOANS AND IDA CREDITS. REGARDS, A. DAVID KNOX, VICEPRESIDENT, LATIN AMERICA AND THE CARIBBEAN REGIONAL OFFICE, INTBAFRAD.

Cleared with and cc: Messrs. Goldberg, LEG; Torres, CTR.

cc: Messrs. van der Meer, Glaessner, Jennings, van Gigch, Wessels, LCP; Pfeffermann, LCNVP; Collell, Velic, LEG; Carter, LC2; Subramanian, Drake, LOA; Topolsky, CSH; Zagha, LC2; Ms. Javier, LC2, *E. Stern, SVPOP*

BVelic:vlw

May 31, 1984

~~CONFIDENTIAL~~
DECLASSIFIED

OCT 17 2022

WBG ARCHIVES

N O T E

Mr. Lerdau:

Re: BOLIVIA: Servicing of External Debt

Reports in today's press that Bolivia would stop paying its external debt are blown out of proportion. They are based on a comment made by Vice President Paz Zamora which does not reflect the Government's position on that matter. Earlier, President Siles had reached an agreement with the trade unions that 25% of export revenues would be used for making debt service payments. I am told that this agreement still stands and that the Government will issue a statement to this effect today.

Even though Bolivia, de facto, has not made any payment to the commercial banks since March 1984, the present Government has not considered seriously stopping debt service payments. The previous Minister of Finance had asked the commercial banks for a reprieve until June to get the economic stabilization program into place. Also, some members of the Steering Committee, including Bank of America, had tacitly agreed to the Minister's proposal of limiting interest payments to 25% of export proceeds--after debt service payment to the multilaterals and a few bilaterals.

I was told that the Central Bank has issued instructions (the payment order was prepared by the former President of the Central Bank himself since the staff is still on strike) to pay the March arrears and that the Government intends to comply with its commitment to clear up all arrears by end June 1984.

Prospects for economic stabilization have been dimmed considerably by the resignation of the Minister of Finance and the President of the Central Bank who had advocated a strong stance against militant labor unions. It has become clear now that President Siles is unwilling to risk a major confrontation; he therefore may not be in a position any longer to put the house in order.


Peter R. Scherer

cc: Messrs. van der Meer, Pfeffermann, Carter

OFFICE MEMORANDUM

DATE April 25, 1984

TO Peter Scherer (LC2DC)

FROM Rita E. Parrilli (LCNVP)

EXTENSION 72359

SUBJECT BOL/77/006 - Transport Study and Loan 1422-BO

OK
ES
4/26

I request your approval to honor a loan withdrawal application received prior to the cutoff date of December 18, 1983. In this respect, please find enclosed a copy of UNDP's cable of April 16, 1984 and copies of the background correspondence to which the cable refers. On December 12 we received UNDP's letter dated December 9 enclosing UNDP Project Revision "J" and loan withdrawal application # 5 N.T.S. dated December 1, 1983 (hand carried by a Bank staff member).

The withdrawal application was misplaced in the Bank and did not reach the Loan Disbursement Division until January 6, 1984. The application covers consultant services for work performed prior to December 2, 1983 and it was received in the Bank prior to December 18, 1983, the period during which standard Bank rules permitted applications to be honored, as per Mr. Stern's note of January 20, 1984. On this basis, the Legal, Controllers and Projects Department agree that the application should be honored by the Bank. If you agree, I would appreciate your sending the attached cable to Government and UNDP.

Cl. w/ & cc: B. Velic (LEGLC) F-711
 N. Nissenbaum (LC2DD) F-925
 T. Markus (LCPT1) D-939
 M. Mole (LOAD2)/G. Torres (LOAD2) I5-140

cc: E. Stern (SVPOP) E-1227
 E. Lerdau (LCNVP) A-907

RParrilli/lis

DRAFT

RParrilli/1s

April 20, 1984

MINISTRY OF TRANSPORT AND COMMUNICATION

LA PAZ (BOLIVIA)

UNDEVPRO

LA PAZ (BOLIVIA)

FOR POPPE MARTINEZ INFO JOSE VASQUEZ INFO BLANCH-SOLER REF UNDP PROJECT
BOL/77/006 AND BANK LOAN 1422-BO. THE BANK WILL HONOR LOAN WITHDRAWAL
APPLICATION NO. 5 N.T.S. OF 1 DECEMBER WHICH WAS REC'D BY THE BANK PRIOR
TO DECEMBER 18, 1983. THE SUM OF US DOLLARS 30,000 WILL BE DEPOSITED
IN UNDP'S CHEMICAL BANK ACCOUNT. REGARDS, SCHERER, INTBAFRAD

Cl. w/ & cc: B. Velic (LEGLC) F-711
H. Nissenbaum (LC2DD) F-925
T. Markus (LCPT1) D-939
M. Mole (LOAD2) I5-140
cc: R. Parrilli (LCNVP) F-907

ER/PC

3-107

March 9, 1984

Lic. Fernando Baptista
Minister of Finance
Ministry of Finance
La Paz, Bolivia

Dear Mr. Minister:

The Bank has given careful consideration to your proposal, expressed in your telex of November 16, 1983 to Mr. Barletta, that the World Bank continue to maintain a Resident Mission in Bolivia. You may know that Mr. Barletta has recently resigned from the Bank to re-enter public life in Panama.

As he and I explained to you in our discussion during the Annual Meeting, the expectations the Bank had associated with the opening of an office in Bolivia have unfortunately not been fulfilled. Indeed, we have not been able to make a loan since 1980 for lack of a convincing program to address the economic problems the country is facing. Moreover, the prevailing unsettled conditions in recent years have not been conducive to a productive dialogue on economic and development policies. Yet, we have dedicated more staff resources to Bolivia in relation to the size of our lending program than to any other country in Latin America. Specifically, the Bank has invested considerable effort in analyses of investment planning, debt management and institutional reforms. The Government has yet to respond to any of the recommendations articulated in these reports.

I am aware, Mr. Minister, that you are concerned about the closing of the Resident Mission at this time. I hope, however, that you will appreciate the reasons for the Bank's position. We have given long and careful thought to this matter, and have postponed action as long as we could. I wish to assure you, Mr. Minister, that closing the Resident Mission does not mean a reduction in our support for Bolivia. We intend to continue to devote Headquarters staff resources to provide the specialized technical assistance your Government needs in its efforts to stabilize and reform the economy always provided, of course, that we jointly reach the conclusion that the Bank can make a useful contribution in a particular area. Please do not hesitate to let us know in which areas your Government considers it could best use the technical assistance of the Bank; my colleagues and I will do our utmost to respond constructively. Furthermore, should the circumstances referred to above change materially, the possibility of reopening the office would be re-examined.

OFFICIAL FILE COPY

I sincerely hope that once your new economic program is in place, the Bank will again be able to provide significant financial assistance to Bolivia. As you know, we are currently processing the Vuelta Grande Gas Recycling Project which could proceed quite expeditiously if we can reach agreement with you on the outstanding issues. The loan under consideration would be the largest the Bank has ever made to Bolivia and should be of immediate and significant help in strengthening the balance of payments. Needless to say, we assume that before negotiations Bolivia would be current in its debt service to the Bank.

Again, Mr. Minister, let me assure you that the Bank is ready to give Bolivia all appropriate support as soon as your Government has taken the necessary steps towards restoring external and internal equilibrium.

With best personal regards,

Sincerely yours,



Enrique Lerda
Acting Vice President
Latin America and the Caribbean
Regional Office

cc: Messrs. Stern, SVPOP; Paijmans, VPA; Hittmair, CTRVP; van der Meer, Glaessner, van Gigch, LCP; Pfeffermann, LCNPV; Carter, Zaha, Javier, LC2; Jones, LEGVP, Velic, Collell, Cucullu, LEG; Torres, Mole, LOA; Theodores, VPA; Cosgrove, ADM; Kaji, PMD; Gillette (ACT); Bolivia Country Team

PRScherrer:gc/mac

DECLASSIFIED

OCT 17 2022

WBG ARCHIVES

SecM84-167

FROM: The President

February 27, 1984

BOLIVIA - CLOSING OF THE BANK RESIDENT OFFICE

1. This memorandum is to advise the Executive Directors of the Bank's intention to close the Resident Mission in La Paz, Bolivia on or about April 30, 1984.

2. The Resident Mission was established in May 1977 to facilitate the development and implementation of the Bank's assistance program in Bolivia. The main justification for the creation of the Mission was the prospect of a substantially enlarged lending program, a prospect that was enhanced by the preceding six years of unprecedented political stability in the country. Initially, the Mission played a constructive role in strengthening the dialogue between the Bank and the Government. However, the expectation that justified the Mission's establishment have unfortunately not been fulfilled. No lending operations have been possible since 1980 and the prevailing unsettled conditions in recent years have not been conducive to a productive dialogue on economic and development policies. Under these circumstances, maintaining the Resident Mission in Bolivia can no longer be justified. This action does not imply a reduction in the Bank's support for Bolivia. The specialized technical assistance Bolivia needs for institutional improvement and economic reform can, under foreseeable circumstances, be provided most efficiently from headquarters. Should the circumstances referred to above change materially, the possibility of reopening the office would be re-examined.

A. W. Clausen
President

Distribution

Executive Directors and Alternates
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

Questions on this document may be referred to Mr. Scherer (Ext. 76251)

SP
EK
RC

Mr. Peter R. Scherer, LC2DD

January 20, 1984

Ernest Stern, SVPOP

BOLIVIA

Because of the difficult repayment situation in regard to Bolivia, I would like you to convene a small working group consisting of yourself and a representative of the Legal Department, and Mr. Vergin representing the Finance complex, to review the options available to us in case the delay in payments is prolonged and to provide us, through your usual management chain, recommendations on what actions the Bank ought to take and when. In reviewing the situation, I would also like you to provide comparative information on the IDB, including status of payments to them, the size of their outstanding portfolio and their lending plans.

I have discussed this with Mr. Lerdau.

cc: Mr. Vergin
Mr. Barletta
Mr. Lerdau

ES:dpw

Mr. Stern

AC / ER / GLE

Bolivia: Exemption from suspension of disbursements

The attached proposed exemption does not fall precisely into any of the categories listed in your memo on this subject dated 12/16/82 (copy also attached), though (with some stretching of the imagination) it could be said to fall within the spirit, if not the letter, of your paragraph 4(d). Given the nature of the project, it would be nice to accommodate this request if at all possible, without setting any undesirable precedent or reducing the pressure on the Bolivians to meet their debt service obligations. In this context, the Regim should presumably have tried to ensure - even though it might not be their ultimate responsibility - that all implementing agencies in Bolivia were informed of the suspension in good time. I suggest that we might be prepared to entertain withdrawal applications for all works done and expenditures incurred prior to November 18, 1983* - the date of suspension - provided these applications are received by February 15¹⁰.

OK
28
1/20/84

RC

1/19/84

Mr. Nissenbaum
informed RC

1/20/84

* or preferably December 2, 1983 (the date proposed by the Regim) since this was the cutoff date specified by the Regim - with the Legal Dept's clearance - in the suspension cable.

OFFICE MEMORANDUM

DATE: January 19, 1984

TO: Mr. Ernest Stern
(through Mr. Philip Claessner, Acting RVP, LAC)FROM: H. J. Nissenbaum, Acting Director, LC2 *H. J. Nissenbaum*

EXT.: 72011

SUBJECT: BOLIVIA - Urban Development Project (Loan 1489-B0)
Exception from Suspension of Disbursements

*OK - for
expenditures
incurred
up to 11/18/83
and provided
withdrawal
applications
are received
in the next
20 days,
i.e. by 2/10/84*

ES

1/20/84

1. I request your approval of an exception from the current suspension of disbursements for small yet important project components under the Urban Development Project in Bolivia in the amount of US\$865,000. The proposed exception would avert significant disruption in the execution of one of the few successful Bank-assisted projects in the country.

Background

2. The Project is aimed at improving difficult living conditions of the urban poor in La Paz, including households in as low as the fifth percentile of their income groups. Within its limited resources, the Government has demonstrated substantial interest in the Project and has done as much as it reasonably could to support it. It has been fully cooperative in amending the urban development program to overcome the problems which have hampered its execution. It is also noteworthy that the housing and sites-and-services components, initially the most problematic parts of the Project, have lately been most successful. Average costs of improvements per household are low; e.g. an estimated US\$300 (at the pre-devaluation exchange rate) for upgrading, and US\$2,500 for sites and services. These have set models for low-cost social improvements in Bolivia, where there has not previously been any cost recovery system.

3. As you know, we suspended disbursements in Bolivia on November 18, 1983 because of service payment delays. The suspension poses a particularly difficult problem for the urban development project management. Anticipating a Bank deposit of US\$1.5 million in a Special Account, and mindful of the Project's June 1984 Closing Date, the Bolivian agencies had pressed ahead on an accelerated implementation schedule, contracting a large portion of the remaining civil works. Unfortunately, the agencies were not informed of the suspension of Bank disbursements. They thus failed to take advantage of the standard provision that withdrawal applications received up to 30 days after the notice of suspension are processed if they were limited to, among others, contractors' work accomplished within some two weeks after the suspension notice. Consequently, there are now unfunded project commitments of approximately US\$860,000 which could have qualified for Bank reimbursement under the suspension arrangements. These concern civil works and the purchases of building materials from local contractors and suppliers who,

because of local conditions, cannot afford an extended delay in payment. Also involved is US\$4,655 for equipment required for sanitary installations under the upgrading component, whose withdrawal application arrived too late to be processed.

4. We fear that a prolonged cessation of the housing and neighborhood upgrading components would result in invasion or vandalism of the houses and infrastructure still uncompleted, which would impair the so far effective system of recovery of investment costs. In turn, this would jeopardize continued lending to low-income residents by the Savings and Loan Housing Bank which is helping to finance the housing component. In addition, the suspension of disbursements will cause a major weakening of the capacity of the executing agencies which the Government is in no position to help. These consequences will adversely affect about 2,000 low-income families scheduled to benefit from these components, who already face substantial difficulties because of rampant inflation, a sharp decline in economic activity and near record droughts and floods in Bolivia. On these accounts, as well as the nature of the Project and the presently difficult country-Bank relations, I believe that this case warrants an exception from the suspension. I therefore propose that disbursements from Loan 1489-B0 of up to US\$865,000 be permitted for all works done on and expenditures incurred for the housing and neighborhood upgrading components prior to December 2, 1983.

Cleared with and cc: Messrs. Scherer, LC2; Goldberg, Collell,
Velic, LEG.

cc: Messrs. Ardito Barletta, (o/r; Lerdau, LC2 (o/r);
van der Meer, LCP (o/r); Scott, LCPUR;
Persaud, LCPUR;
Ms. Villalobos, LOA

HJNissenbaum/AGarciadeTruslow:vv/gc/vlw

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OF

EXTENSION

MESSAGE NUMBER

TELEX NUMBER
(FOR CASHIER'S USE ONLY)

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TO:

LA PAZ, BOLIVIA

BOOK OF THREE TELEXES (SEE ATTACHED TEXT)

1. LIC. FERNANDO BAPTISTA
MINISTER OF FINANCE
MINFINANZAS
TELEX BX 2617 MINFINANZAS
2. MR. HERBERT MULLER COSTAS
PRESIDENT, CENTRAL BANK
TELEX BX 2426
3. MS. ANA MARIA PAZ
INTBAFRAD
TELEX 2618 INBRDBOL

*Bolivia -
suspension of disbursements
as of 11/18.*

12

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CLASS OF SERVICE

TELEX NO.

DATE

SUBJECT

DRAFTED BY

CLEARANCES AND COPY DISTRIBUTION

AUTHORITY (Initials and Signature)

DEPARTMENT

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PRESIDENTIAL OFFICE

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EXTENSION

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ADDRESSSED TO LIC. FERNANDO BAPTISTA, MINISTER OF FINANCE AND MR.
HERBERT MULLER COSTAS, PRESIDENT, CENTRAL BANK OF BOLIVIA, FOR
INFORMATION MS. ANA MARIA PAZ, INTBAFRAD. ON NOVEMBER 1 WE SENT
A TELEX SEEKING YOUR COOPERATION IN BRINGING BOLIVIA'S
OUTSTANDING SERVICE PAYMENTS CURRENT AND ADVISING YOU OF THE
BANK'S AND ASSOCIATION'S INTENTION TO SUSPEND DISBURSEMENTS UNDER
ALL BANK AND ASSOCIATION LOANS AND CREDITS UNLESS THE OUTSTANDING
PAYMENTS WERE RECEIVED BY NOVEMBER 14, 1983. FOLLOWING OUR
TELEPHONE CONVERSATION DATED NOVEMBER 14 AND YOUR STATEMENT THAT
ALL OVERDUE PAYMENTS HAD BEEN MADE OR ARE BEING MADE, WE INFORMED
YOU IN OUR TELEX DATED NOVEMBER 15, 1983 THAT IF ALL OUTSTANDING
PAYMENTS WERE NOT RECEIVED BY NOVEMBER 18, 1983, THE BANK AND
THE ASSOCIATION WILL SUSPEND DISBURSEMENTS UNDER ALL LOANS AND
CREDITS. UNFORTUNATELY, WE HAVE NOT RECEIVED BOLIVIA'S SERVICE
PAYMENTS (I) UNDER LOAN 1423-BO (USDOLLARS 1,255,147.00) OVERDUE
SINCE SEPTEMBER 1, 1983 SEMICOLON (II) UNDER LOANS 1422-BO
(USDOLLARS 1,855,942.87) AND 1422-5-BO (USDOLLARS 116,757.62)
OVERDUE SINCE OCTOBER 3, 1983 SEMICOLON AND (III) UNDER LOAN
1238-BO (USDOLLARS 1,204,495.22) OVERDUE SINCE NOVEMBER 1.
THEREFORE, IT IS WITH UTMOST REGRET THAT I MUST INFORM YOU THAT

21
22
END
OF
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NOT TO BE TRANSMITTED

CLASS OF SERVICE:

TELEX NO.:

DATE:

SUBJECT:

DRAFTED BY:

CLEARANCES AND COPY DISTRIBUTION:

AUTHORIZED BY (Name and Signature):

DEPARTMENT:

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1 → 2 OF 3

78009

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12

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THE BANK AND THE ASSOCIATION ARE SUSPENDING AS OF 12 A.M.,
 NOVEMBER 18, 1983, THE RIGHT OF THE RESPECTIVE BORROWERS TO MAKE
 ANY FURTHER WITHDRAWALS FROM LOAN ACCOUNT NUMBERS 1121-B0,
 1211-B0, 1290-B0, 1324-B0, 1331-B0, 1404-B0, 1422-B0, 1423-B0,
 1489-B0, 1510-B0, AND 1587-B0 AND CREDIT ACCOUNT NUMBERS 762-B0,
 933-B0, 940-B0, 948-B0, AND S-25-B0 ACCORDING TO SECTION 6.02 OF
 THE GENERAL CONDITIONS APPLICABLE TO LOAN AND GUARANTEE
 AGREEMENTS AND TO DEVELOPMENT CREDIT AGREEMENTS, RESPECTIVELY.
 THE SUSPENSION IS SUBJECT TO THE FOLLOWING EXCEPTIONS COLON (AAA)
 WITHDRAWAL APPLICATIONS RECEIVED ON OR BEFORE DECEMBER 18, 1983
 COVERING PAYMENTS PURSUANT TO CONTRACTUAL ARRANGEMENTS APPROVED
 BY THE BANK AND THE ASSOCIATION FOR COLON (I) SUPPLY OF GOODS
 SHIPPED OR DELIVERED PRIOR TO DECEMBER 2, 1983 AND (II)
 CONSULTANTS' SERVICES AND CONTRACTORS' WORK PERFORMED PRIOR TO
 DECEMBER 2, 1983. (BBB) REQUESTS FOR REIMBURSEMENTS TO
 COMMERCIAL BANKS HOLDING QUALIFIED OR IRREVOCABLE AGREEMENTS TO
 REIMBURSE ISSUED BY THE BANK OR THE ASSOCIATION ON OR BEFORE
 NOVEMBER 18, 1983. IN CONNECTION WITH THIS ACTION, PEASE NOTE
 THAT WE ARE INFORMING INTERNATIONAL FUND FOR AGRICULTURAL
 DEVELOPMENT OF THESE MEASURES WHICH AFFECT OMASUYOS LOS ANDES

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OFFICE MEMORANDUM

TO: Mr. Nicolas Ardito Barletta, RVP
 Through: Mr. S.M.L. van der Meer, Director, LCP
 FROM: Francis van Gigch, Assistant Director, LCP
 SUBJECT: BOLIVIA: Villa Ulla Rural Development Project
Comments from Mr. Stern

DATE: October 31, 1983

As you remember, you sent to Mr. Stern my memorandum dated October 20, 1983 on this subject (copy attached for easy reference). I talked on the phone with Mr. Köpp who conveyed to me Mr. Stern's reactions. These are as follow:

- 1) Mr. Stern agrees that we should wait for our analysis of the Government's proposals before we take a final position;
- 2) Mr. Stern would find proposal 3(a)(i) acceptable but if the sale is on a cash basis he still feels Bank-IDA should be reimbursed for its disbursements on account of the goods involved. If it were on credit, then Mr. Stern would not insist on "prematurating" this part of the loan/credit;
- 3) Clearly, the two-year proposed extension would proceed one year at a time in accordance with current instructions and procedures.

Concerning item 2) above, I pointed out to Mr. Köpp that even if the sale is on a cash basis, it is almost certain that it would be in Bolivian pesos and therefore to require Government to repay the Bank on hard currency would be a tough imposition indeed. Furthermore, as matters stand today, the Government is unlikely to cover by the sale the full original cost of the goods in question. Mr. Köpp replied that we could deal with this issue when we put forward the results of our analysis implying, of course, that we would have to refer these matters back to Mr. Stern.

cc: Messrs. Lerdau
 Köpp ✓
 Otten
 Scherer
 Sharma
 Purcell

FvanGigch:mb

repayment would be requested, as it would be a matter of judgment as to whether the Government is not meeting its obligations under the project;

(iii) If Government continues with the textile mill using non-Bank resources but relocates the mill at Pulacayo (which site is grossly inappropriate), the accelerated repayment of the funds disbursed on equipment would be requested, as this would represent misuse of funds.

(b) The Bank considers that it is able to continue support for the textile mill; the Credit/Loan would be extended for all components to 6/30/85. However, as in this case the recruitment of qualified and experienced management would be crucial to efficient mill operation, and as the plant would not be operational until after the new Closing Date, the Government would be advised that accelerated repayment of the loan or textile mill portion of the loan would be incurred if management acceptable to the Bank were not recruited and permitted to operate under sound business management principles at least for the first three years of operation of the plant.

cleared w/& cc: Mr. Scherer, LC1D
cc: Messrs. Otten, Sharma, LCPAC

DLPurcell/ec

(a) Textile mill is not...
secured...
the project...

(ii) If...
the...
the...
not...

EW

1. Mr. van Pijlen informed

2. ~~Re 2A~~

3. File E6 10/28

What do you think?

A) we surely wait for the analysis of the Bolivian proposal.

B) 3-a-i could be acceptable if treated as a DFC subloan, with no profit to the government

C) the extension should not be for 2-years. You might draw Region's attention to this now.

but if they sell for cash, E
Govt. should pass on funds pretty rapidly to Bank/COA.
If however, sold on credit, o.k.

OFFICE MEMORANDUM

TO: Mr. Ernest Stern, Vice President, SVPOP

THROUGH: Nicolas Ardito-Barletta, Vice-President, LCNVP

FROM: Francis van Gigch, Assistant Director, LCPAC

SUBJECT: BOLIVIA: Ulla Ulla Rural Development Project

DATE: October 20, 1983

1. In the spring review of this project, the serious delay in the construction of the textile mill was a major issue. You indicated that, in the event that Government could not proceed with the mill and the equipment already procured under the Credit/Loan were to be sold by Government, then the Bank should consider asking Government to prepay that part of the Credit/Loan if the ultimate use of the equipment was unrelated to the project.

2. Since the spring review, progress in most of the productive components of the project has been significant, and the recent supervision mission recommended a two-year extension of the project to 6/30/85; however, this extension would not apply to the textile mill component, and the mission recommended that the existing mill equipment be sold to the private textile sector in Bolivia. Further delays in the textile mill program, and increasing evidence that it would be unlikely that Government could operate an efficient and economic plant, led to the conclusion that it would be in the best interests of the industry to have the private sector develop the additional animal fiber processing capacity in Bolivia (which is the basic objective of the processing component). However, Government indicated that it did not wish to dispose of the equipment, and asked that it be allowed to submit its own analysis of the textile mill program for Bank review before a final decision is taken; this was agreed, and the analysis has just been received and is being reviewed.

3. Possible scenarios and our recommendations for each are as follows:

(a) Textile mill is not considered viable in the public sector and the Bank cannot support it further; the Bank would extend the Credit/Loan to 6/30/85, with the exception of the textile mill component:

(i) If Government sells equipment to the private sector on acceptable terms, no accelerated payment would be requested, as basic project objectives of developing additional animal fiber processing capacity using modern technology would be met; the Bank would insist that funds generated from the sale would be allocated to development of the animal fiber industry;

(ii) If Government refuses or cannot sell to the private sector, but continues with the textile mill program at Viacha using non-Bank resources, no accelerated repayment would be requested, as it would be a matter of judgment as to whether the Government is not meeting its obligations under the project;

*If could for cash,
very hard for the, at all.
if not. If you could
terms, etc. 2 to 3%*

*legal
basis for
ii + iii*

- (iii) If Government continues with the textile mill using non-Bank resources but relocates the mill at Pulacayo (which site is grossly inappropriate), the accelerated repayment of the funds disbursed on equipment would be requested, as this would represent misuse of funds.
- (b) The Bank considers that it is able to continue support for the textile mill; the Credit/Loan would be extended for all components to 6/30/85. However, as in this case the recruitment of qualified and experienced management would be crucial to efficient mill operation, and as the plant would not be operational until after the new Closing Date, the Government would be advised that accelerated repayment of the loan or textile mill portion of the loan would be incurred if management acceptable to the Bank were not recruited and permitted to operate under sound business management principles at least for the first three years of operation of the plant.

cleared w/& cc: Mr. Scherer, LC1D
cc: Messrs. Otten, Sharma, LCPAC

~~AB~~ Pmt

DLPurcell/ec

Mr. Stern

Et-
~~bc~~
file

OK
W)

for Borshch
~~only~~

Please see the attached memorandum
in response to your question (a).

I have asked Megdi to keep you closely
informed of the results of the "exploratory
talks".

→ E. Kopy 9, 14

Johnson:

10/1/63

Barbara

Bolivia:

Agreed on pricing policy
- plots

negative pledge clause
with banks to
be explored

joint union with Croopers,
IDF and should be carried
with out printing a price

83/84 budget proposal to be
submitted to IDF

study points:

1. reduce

budget from 12 1/2% of GDP
to 6 1/2%

2.

60% min. devel.

See Annual Budget Record

OFFICE MEMORANDUM

To: Mr. Magdi R. Iskander, Chief, EGYD2

September 29, 1983

From: Can N. Toktar, ^{Can} EGYD2Subject: BOLIVIA - IDB Loans for Petroleum Projects

1. IDB has approved in FY83 an exploration and production project estimated to cost US\$ 173.7 million. Breakdown of the financing is:

	<u>US\$</u>
IDB	134.0
OPEC Special Fund	10.0
Suppliers Credit	11.0
YPFB Internal Resources	<u>18.7</u>
	173.7

Components of the project are the following: (i) seismic survey over an area of 17,000 km² consisting of 3,200 line-km of regional and 900 line-km of detailed seismic, and reprocessing of 5,000 line-km of old seismic data; (ii) drilling of 18 exploration wells (6 stratigraphic and 12 structural) in the northern part of Rio Grande area; and (iii) development and rehabilitation of Suarez Roca and La Pena fields.

2. The IDB project (in particular drilling of stratigraphic exploration wells) consists of high risk, long gestation undertakings that are best left to the private sector which has shown some interest in these areas. As we are proposing, a more appropriate strategy for YPFB and Bolivia should focus on low risk projects that would rapidly increase liquid hydrocarbon for export to yield the much needed foreign exchange.

CNToktar/seb

OFFICE MEMORANDUM

DATE September 23, 1983
 TO Mr. E. Stern, SVPOP
 FROM Philippe Bourcier, EGY
 EXTENSION 72431
 SUBJECT BOLIVIA - Vuelta Grande Project

1/ informed borrower
 - 9/26 of Iskander
 - 9/29. The latter
 will prepare sheet
 with regulatory of

2/ ~~acc~~
 3/ File 9/29

Eberhard

- a) what is the current IDB role with YPFB?
 b) I don't mind exploring whether an enclave arrangement is satisfactory.

(28)
 9/25/83

1. Attached is a note from Mr. Iskander recommending that we resume processing of the Vuelta Grande project in Bolivia and explore concretely with the commercial banks the possibility of establishment of an enclave operation, once Bolivia has cleared its position with commercial banks. This recommendation is supported by the programs. Given the positive, although slight sign of progress towards meeting some of our lending objectives, i.e., progress in adjusting prices and attracting private sector investment, I would also support Magdi's recommendations.

2. A recent review of Bolivia's petroleum sector carried out by the Department indicates that Bolivia's sector development strategy should be in the medium term to encourage the production of liquid hydrocarbons for exports through recycling projects like Vuelta Grande and changes in exploration strategy (following recent crude oil leads in medium risk areas rather than looking for large fields in high risk areas). In the longer term, Bolivia should develop gas exports to neighboring countries mainly Brazil. The Bank can through project lending exercise considerable leverage on YPFB and protect it through covenants from Government interference. Without the Bank's presence the chances are that YPFB will depend increasingly on IDB lending to finance their exploration and development programs which in our opinion is less concerned about pricing issues, YPFB investment priorities and financial viability.

3. Resuming processing of the Vuelta Grande project would give us a direct access to both YPFB and the Government at a critical stage when alternative sector development strategies have to be formulated to take into account likely delays in the export of gas to Brazil.

Attachment

PBourcier:ahd

cl.w. & cc: Messrs. Iskander (EGY), Scherer (LC2)
 cc: Messrs. Dherse (VPEIS), Rovani (EGY), Lerdau (LC2)

OFFICE MEMORANDUM

DATE: September 21, 1983

TO: Mr. Philippe Bourcier, Assistant Director, EGY

FROM: Magdi R. Iskander, Chief, EGYD2

SUBJECT: Bolivia-Proposed Vuelta Grande Gas Recycling Project.

1. Mr. Peter Scherer has informed me that the newly appointed cabinet is considering increasing petroleum product prices. As you know this was the main feature of the Vuelta Grande Project and a key condition for the IMF stand-by agreement. I suggest this question be pursued by the Bank's management with the Bolivian Delegation during the Annual Meeting. Should the Government confirm its commitment to adopt a reasonable program for petroleum price increases, we recommend to resume processing the proposed Vuelta Grande project on an enclave basis prior to reaching agreement with the IMF, with the clear understanding that the Bank would only approve the project after reaching agreement with the Government on concrete steps and timetable for price increases (including a significant increase prior to Board Presentation). Programs supports this position.

2. We are basing this recommendation on the fact that this project has many aspects of structural adjustment loans, notably: (i) it will disburse quickly (2 years) as the detailed engineering design is complete, and the project could be constructed in two years; (ii) it will generate about US\$80 million in foreign exchange per year starting 1987, which is equivalent to 25% of the Bolivia debt service obligation, and provide the Government with the breathing space to maintain the necessary economic reform; and (iii) the petroleum price increase will go a long way to help the Government meeting the fiscal and budget targets under discussion with the IMF. The project assumes particular importance now because of the likely delay in the Bolivia-Brazil Gas Pipeline Project (which is most likely to be operating only in the early 1990s). In fact, it may be Bolivia's best immediate large scale export prospect.

3. The proposed project would recover liquid hydrocarbons, such as natural gasoline and condensate, and LPG by processing the produced gas. The dry gas would be reinjected back into the reservoir until a market develops (such as Bolivia-Brazil gas pipeline). The project is expected to cost about US\$86 million of which US\$70 million in foreign exchange and will generate about US\$80 million per year from exporting liquids. The project was within days of Board presentation in May 1981 when it was withdrawn following the failure to meet commitments on key areas of the IMF stand-by agreement. The project is ready for implementation, as the basic and detailed engineering design study (including the material/equipment specifications), partially financed with a US\$1 million PPF was completed in June 1983.

4. Should we agree to finance this project, we recommend that it be set up as an enclave project. At present Bolivia is self sufficient in petroleum products. Eventually the demand is expected to surpass the supply, but it would be for medium distillates such as kerosene and diesel fuel, where as the

proposed project would be recovering light distillates (natural gasoline, and condensate). The recovered liquid hydrocarbon production would be exported through the existing product pipeline system extending to Arica, Chile on the Pacific Ocean. The commercial banks have in principle accepted to have the negative pledge clause as they recognize the significant impact the project would have on Bolivia's foreign exchange earnings. The actual agreement on the waiver may, however, be complicated by the fact that Bolivia has recently (Sept. 15) defaulted on its obligation to its creditor and has asked them for further rescheduling. Once we get a clear picture of this rescheduling, we propose to concretely explore with the commercial banks the possibility of establishment of an enclave operation.

5. Once Bank management decides to proceed with the proposed operation, it could be processed fast since it was re-appraised in March 1982, and updated costs (June 83) are available from the engineering design study. The project is well advanced (field development, and engineering studies) and the field could be producing liquid hydrocarbons for export two years after the placement of the first orders for plant equipment.

6. The proposed project would also be a good vehicle to influence the Government policies in other areas such as defining exploration strategy and opening exploration acreage to the private sectors (Anschutz and Royal Dutch Shell signed an agreement in 1982, to invest US\$30 million in exploring an area of about three million hectares).

7. The proposed framework and arrangements for this project would be applicable to similar fields where retrograde gas condensate reservoirs exist including those fields that are operated by the private sector (notably Tesoro). Such projects would also provide good opportunities for cofinancing once the arrangements proposed have been tested.

CToktar/Miskander.plj

cc: Messrs. Nissenbaum, Zagher, Lerdau (LC2)
Rovani, Bauer, Toktar, Stoddart (EGY)
Jennings (LCP)

International Bank for Reconstruction and Development

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R83-232

FROM: The President

July 8, 1983

BOLIVIA - Education and Vocational Training Project
(Ln. 1404-B0) -- Proposed Revision of Project Scope

Summary

1. This memorandum seeks the approval of the Executive Directors to amend the Legal Agreements for the Education and Vocational Training Project in order to (a) reduce the Project scope essentially to comply with existing contractual obligations; (b) increase the Bank's share of total financing from 70% to 72% to meet part of the local counterpart fund required by (a); and (c) support the bilingual instruction policy for textbooks and curricula.

Background

2. The Project consists of two parts, viz.; (a) a primary and community education program; and (b) a vocational training program. The Bank loan of US\$15.0 million approved in 1977 finances the foreign and about 46% of local costs. After 5 1/2 years of execution, the Project is only 50% complete and about 53% of the loan amount is disbursed. The reasons are, principally, frequent turnover in management and staff during the early years of the Project because of Government changes and a continuing serious lack of counterpart funds. The problem of personnel turnover has been largely overcome; the key Project staff has not changed for the past 2-1/2 years. However, implementation delays have resulted in cost overruns; the cost of civil works construction (in Bolivian pesos) has increased more than four times the original cost estimated at appraisal.

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*Questions on this document may be referred to Ms. Javier (Ext. 76307)

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3. Despite the delays in school and training center construction, the Project posted accomplishments in the development of curriculum and learning materials, and completion of a pre-investment study on the employment generation and training needs of the population in the mining areas. Although the Project originally envisioned a bilingual instruction program for primary schools, the curriculum, textbooks and teacher-training programs were developed in Spanish because the previous government decided to pursue a Spanish-based instruction policy. The current Government, however, has reintroduced the bilingual policy; i.e. Spanish/Indian dialects (Aymara/Quechua/Guarani) which is a step in the right direction toward improving the quality of rural primary education. An agreement has been reached with the Government on the revision of curricula, textbook and teacher-training programs without nullifying the progress previously made in these areas under the project (para. 5).

Project Scope

4. Government resources in real terms have declined drastically as a result of Bolivia's economic depression. Since the Government would be unable to provide the local counterpart funds required for the project as conceived originally, it requested that the scope be reduced essentially to complete all works started and to comply with all contracts approved by the Bank. These works had been selected according priority to rural primary schools over secondary schools, repair work over the construction of new schools, and vocational training centers in regions which have no training facilities. The Project would thus be revised as follows: (a) the number of primary schools to be constructed, repaired and equipped would be reduced from the appraisal estimate of 955 to 580; i.e. new classrooms to be constructed would be cut down by almost 50% (from 443 to 216); the number of existing classrooms to be equipped can be cut by about 70% (from 229 to 69) without major loss since the equipment now in place in several classrooms is still serviceable; on the other hand, classrooms to be repaired, which would require relatively little additional investments, would be increased from 283 to 295; (b) intermediate schools to be constructed would be reduced from 10 to 1 and those to be equipped from 10 to 2; (c) vocational training centers to be constructed would be reduced from 5 to 3 and those to be equipped/furnished from 6 to 5; (d) elimination of 2 mobile training workshops for the mining trades and 15 sets of equipment and transportation for training in agricultural and rural artisan occupations; and (e) consultant services would be reduced from 18 to 16 staff-years while fellowships would increase from 63 to 91.5 staff-years.

5. The bilingual instruction program would be implemented gradually, starting with grades 1 and 2 in early 1985. The preparatory work on curriculum amendments and textbook revisions (in bilingual format) for grades 1 and 2 would commence by January 1984 after completion of training and orientation of curriculum and textbook writers in June-December 1983. Meanwhile, the Government has agreed to start the printing of textbooks, teachers' guides and student workbooks which have been developed in Spanish for the 5 grades of primary education during the second half of 1983 and distribute these to project schools by early 1984.

Project Costs

6. The proposed changes and the recent Peso devaluation (from \$b44 to \$b200 per US\$1) would reduce total Project cost from US\$21.4 million to US\$16.6 million; the foreign exchange component from US\$9.5 million to US\$6.5 million and the local cost from US\$11.9 million to US\$10.1 million. The revised Project scope would require counterpart funds of about US\$875 thousand per year or a total of US\$1.75 million for 1983 and 1984, about half of what would have been needed without the proposed revision. However, since the Government would only be able to provide about US\$1.34 million to complete the Project, we propose that the Bank increase its project cost financing share from 70% at appraisal to 72% (i.e. 100% of foreign and 55% of local cost). The proposed increase in the Bank's cost sharing formula is justified considering (a) Bolivia's low per capita income (US\$580) which qualifies it as an IDA blend country, and (b) the prevailing deep economic recession because of foreign exchange constraints. Overall, US\$3.0 million of the Bank loan would be cancelled, i.e. from US\$15.0 million to US\$12.0.

7. Despite the proposed changes, the basic objectives of the Project (i.e. improving the quality of instruction, increasing access to primary education and improving worker skills) would essentially be met. Although the number of beneficiaries of new and improved schools would be considerably lower than appraisal estimates, the entire student population of the Altiplano would benefit from the quality improvement of curricula, textbooks and teacher training provided under the Project. The new and upgraded schools would accommodate some 23,200 primary school children annually by 1985 as compared to the 37,820 projected at appraisal; the two intermediate schools are estimated to have an annual enrollment of 1,520 compared to 4,590 foreseen at appraisal. The five vocational training centers would be able to offer skill upgrading courses in about 30 trades with a direct annual output of about 4,600 managers, supervisors, skilled and semi-skilled workers compared to 5,700 at appraisal.

Closing Date

8. The revised Project would need another 18 months for completion. If the Board agrees with the above proposal, the Project Closing Date would be extended by one year i.e., from December 31, 1982 to December 31, 1983; any further extension would be contingent on satisfactory extension of the revised program.

Recommendations

9. In the absence of objections (to be communicated to the Vice President and Secretary or Deputy Secretary by the close of business on July 21, 1983) I propose to amend the legal documents for Loan 1404-B0 to reflect the above changes.

OFFICE MEMORANDUM

EK/RE/JP

proj. file

OK
EG
7/7/83

DATE: July 6, 1983

TO: Mr. Ernest Stern
(through Mr. Nicolas Ardito Barletta)
FROM: Miguel Schloss, Acting Director, LC2

EXT.: 72255

SUBJECT: BOLIVIA - Loan Amendments, First Education Project (Ln. 1404)

1. Attached is a proposal for amending the Education Project to be distributed to the Board on a non-objection basis. The proposal is in line with the discussion during the PIR meeting of May 26, 1983. Salient features are summarized below.
2. The proposed reduction in the scope of the project by about 30% and increase in the Bank's financing share by 2 percentage points would allow completion of the project as amended about two and a half years after the original closing date; this would be about one year earlier than the Bank-wide average (8 years) for completion of education projects approved in the mid-70s. We are proposing to extend the project closing date initially only by one year (from December 1982 to December 1983); further extension would be subject to satisfactory performance.
3. While the number of students benefitting from new and improved schools would be lowered roughly in line with the cut in the size of the project infrastructure, the entire primary student population of the Altiplano would benefit from the qualitative improvement in curriculum, teacher training and textbook development. The objectives of the project essentially would still be met.
4. The Government has already deposited in a special account about 65% of the counterpart funds required for 1983. We are confident that the works initiated and the contracts signed under the loan can be completed within the period specified. Closing the loan at this juncture would leave a great many schools half done and send the wrong signal to the new Government which has made a serious effort to provide for funding.

PScherer:gc/vv

FROM: The President

BOLIVIA - Education and Vocational Training Project
(Ln. 1404-B0) -- Proposed Revision of Project Scope

Summary

1. This memorandum seeks the approval of the Executive Directors to amend the Legal Agreements for the Education and Vocational Training Project in order to (a) reduce the Project scope essentially to comply with existing contractual obligations; (b) increase the Bank's share of total financing from 70% to 72% to meet part of the local counterpart fund required by (a); and (c) support the bilingual instruction policy for textbooks and curricula.

Background

2. The Project consists of two parts, viz.; (a) a primary and community education program; and (b) a vocational training program. The Bank loan of US\$15.0 million approved in 1977 finances the foreign and about 46% of local costs. After 5 1/2 years of execution, the Project is only 50% complete and about 53% of the loan amount is disbursed. The reasons are, principally, frequent turnover in management and staff during the early years of the Project because of Government changes and a continuing serious lack of counterpart funds. The problem of personnel turnover has been largely overcome; the key Project staff has not changed for the past 2-1/2 years. However, implementation delays have resulted in cost overruns; the cost of civil works construction (in Bolivian pesos) has increased more than four times the original cost estimated at appraisal.

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3. Despite the delays in school and training center construction, the Project posted accomplishments in the development of curriculum and learning materials, and completion of a pre-investment study on the employment generation and training needs of the population in the mining areas. Although the Project originally envisioned a bilingual instruction program for primary schools, the curriculum, textbooks and teacher-training programs were developed in Spanish because the previous government decided to pursue a Spanish-based instruction policy. The current Government, however, has reintroduced the bilingual policy; i.e. Spanish/Indian dialects (Aymara/Quechua/Guarani) which is a step in the right direction toward improving the quality of rural primary education. An agreement has been reached with the Government on the revision of curricula, textbook and teacher-training programs without nullifying the progress previously made in these areas under the project (para. 5).

Project Scope

4. Government resources in real terms have declined drastically as a result of Bolivia's economic depression. Since the Government would be unable to provide the local counterpart funds required for the project as conceived originally, it requested that the scope be reduced essentially to complete all works started and to comply with all contracts approved by the Bank. These works had been selected according priority to rural primary schools over secondary schools, repair work over the construction of new schools, and vocational training centers in regions which have no training facilities. The Project would thus be revised as follows: (a) the number of primary schools to be constructed, repaired and equipped would be reduced from the appraisal estimate of 955 to 580; i.e. new classrooms to be constructed would be cut down by almost 50% (from 443 to 216); the number of existing classrooms to be equipped can be cut by about 70% (from 229 to 69) without major loss since the equipment now in place in several classrooms is still serviceable; on the other hand, classrooms to be repaired, which would require relatively little additional investments, would be increased from 283 to 295; (b) intermediate schools to be constructed would be reduced from 10 to 1 and those to be equipped from 10 to 2; (c) vocational training centers to be constructed would be reduced from 5 to 3 and those to be equipped/furnished from 6 to 5; (d) elimination of 2 mobile training workshops for the mining trades and 15 sets of equipment and transportation for training in agricultural and rural artisan occupations; and (e) consultant services would be reduced from 18 to 16 staff-years while fellowships would increase from 63 to 91.5 staff-years.

5. The bilingual instruction program would be implemented gradually, starting with grades 1 and 2 in early 1985. The preparatory work on curriculum amendments and textbook revisions (in bilingual format) for grades 1 and 2 would commence by January 1984 after completion of training and orientation of curriculum and textbook writers in June-December 1983. Meanwhile, the Government has agreed to start the printing of textbooks, teachers' guides and student workbooks which have been developed in Spanish for the 5 grades of primary education during the second half of 1983 and distribute these to project schools by early 1984.

Project Costs

6. The proposed changes and the recent Peso devaluation (from \$b44 to \$b200 per US\$1) would reduce total Project cost from US\$21.4 million to US\$16.6 million; the foreign exchange component from US\$9.5 million to US\$6.5 million and the local cost from US\$11.9 million to US\$10.1 million. The revised Project scope would require counterpart funds of about US\$875 thousand per year or a total of US\$1.75 million for 1983 and 1984, about half of what would have been needed without the proposed revision. However, since the Government would only be able to provide about US\$1.34 million to complete the Project, we propose that the Bank increase its project cost financing share from 70% at appraisal to 72% (i.e. 100% of foreign and 55% of local cost). The proposed increase in the Bank's cost sharing formula is justified considering (a) Bolivia's low per capita income (US\$580) which qualifies it as an IDA blend country, and (b) the prevailing deep economic recession because of foreign exchange constraints. Overall, US\$3.0 million of the Bank loan would be cancelled, i.e. from US\$15.0 million to US\$12.0.

7. Despite the proposed changes, the basic objectives of the Project (i.e. improving the quality of instruction, increasing access to primary education and improving worker skills) would essentially be met. Although the number of beneficiaries of new and improved schools would be considerably lower than appraisal estimates, the entire student population of the Altiplano would benefit from the quality improvement of curricula, textbooks and teacher training provided under the Project. The new and upgraded schools would accommodate some 23,200 primary school children annually by 1985 as compared to the 37,820 projected at appraisal; the two intermediate schools are estimated to have an annual enrollment of 1,520 compared to 4,590 foreseen at appraisal. The five vocational training centers would be able to offer skill upgrading courses in about 30 trades with a direct annual output of about 4,600 managers, supervisors, skilled and semi-skilled workers compared to 5,700 at appraisal.

Closing Date

8. The revised Project would need another 18 months for completion. If the Board agrees with the above proposal, the Project Closing Date would be extended by one year i.e., from December 31, 1982 to December 31, 1983; any further extension would be contingent on satisfactory extension of the revised program.

Recommendations

9. In the absence of objections (to be communicated to the Vice President and Secretary or Deputy Secretary by the close of business on _____) I propose to amend the legal documents for Loan 1404-B0 to reflect the above changes.

1. Informed by letter
2. File

EK

Elh 4/15

we spoke.

I see no very good reason to amend.

The project is closed; it's half done. That's all the amendment would formalize. We can just as easily keep account open for 3 more months and cancel the balance.

I agree with your other points.

ES

4/3/83

Mr. Stern

This is Bolivia and it is probably a good idea to cut losses and consolidate the project. But I feel it is not appropriate to say just one sentence (- para. 2) to explain why in 5½ years only 50% of the project have been completed. One of the main reasons (i.e. personnel changes) has not been a problem anywhere for the past 2½ years!

Having completed half the project is considered as having "essentially met the basic objectives of the Project" (see para. 5)!

There is no word whether or not the "savings" of \$3.5m (see last sentence of para. 4) would be cancelled.

The closing date needs to be calculated from December 82 to Dec. 83. The review of the implementation of the second paper of the possible need to further extend the closing date should not lead to any further extension of the date, in any case (see para. 61). If some minor payments still have to be made then under now existing contracts, one could keep the account open for 6 months.

This is a major change in project scope. I hope Messrs. Schmidt-Jordan, El Neggar and Hognet will not object to the "no-objection".

E. Upp 4/1

OFFICE MEMORANDUM

TO: Mr. Ernest Stern

DATE: March 28, 1983

FROM: Nicolas Ardito Barletta 

SUBJECT: BOLIVIA - First Education Project (Ln. 1404-BO)
Loan Amendments

For your clearance, attached is a draft President Memorandum for approval of the Executive Directors on a "no-objection" basis, proposing a revision in the scope of the above Project.

FROM: The President

BOLIVIA - Education and Vocational Training Project
(Ln. 1404-BO) -- Proposed Revision of Project Scope

Summary

1. This memorandum seeks the approval of the Executive Directors to amend the Legal Agreements for the Education and Vocational Training Project in order to (a) reduce the Project scope essentially to comply with existing contractual obligations; and (b) increase the Bank's share of total financing from 70% to 73% to meet the local counterpart fund required by (a). Despite the reduction in Project scope the basic objectives of the Project would be met.

Background

2. The Project consists of two parts, viz.; (a) a primary and community education program; and (b) a vocational training program. The Bank loan of US\$15.0 million approved in 1977 finances the foreign and about 46% of local costs. After 5 1/2 years of execution, the Project is only 50% complete and about 53% of the loan amount is disbursed. The reasons are, principally, frequent changes in management and staff during the early years of the Project and, more recently, serious lack of counterpart funds. The problem of personnel turnover has been largely overcome by now; the key Project staff has not changed for the past 2-1/2 years. Despite the delays in school and training center construction, the Project posted accomplishments in the development of curriculum and learning materials, introduction of bilingual (Spanish and Aymara) education and completion of pre-investment studies on the education and training needs of the low income population.

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*Questions on this document may be referred to Ms. Javier (Ext. 76307)

Proposed Project Scope Revision

3. Because of stringent budget constraints, the Government requested that the Project scope be reduced essentially to complete all works started and to comply with all contracts approved by the Bank. These works had been selected according priority to rural primary schools over secondary schools, school sites close to La Paz over relatively isolated areas, and vocational training centers in regions which have no training facilities. The Project would thus be revised as follows: (a) construction of only 433 of the originally planned 955 primary school classrooms; 2 of the 10 intermediate schools, and 3 of the 4 vocational training centers; (b) elimination of mobile training workshops for the mining trades and 15 sets of equipment and transportation for agricultural and rural artisan training; and (c) reduction in consultant services and fellowships from 9-1/2 to 5 man-years and from 62-3/4 to 42 man-years respectively.

Project Benefits

4. The proposed changes and the recent Peso devaluation (from \$b44 to \$b200 per US\$1) would reduce total Project cost from US\$21.4 million to US\$15.8 million; the foreign exchange component from US\$9.5 million to US\$6.1 million and the local cost from US\$11.9 million to US\$9.7 million. The revised Project scope would require counterpart funds of US\$650 thousand per year or a total of US\$1.3 million for 1983 and 1984, half of what would have been needed without the proposed revision. However, since the Government would only be able to budget US\$500 thousand per year, it requested the Bank to increase its project cost financing share from 70% at appraisal to 73% (i.e. 100% of foreign and 55% of local cost). The proposed increase in the Bank's cost sharing formula is justified considering (a) Bolivia's low per capita income (US\$600) which qualifies it as an IDA blend country, and (b) the prevailing deep economic recession because of foreign exchange constraints. Overall, the Bank loan would be reduced by US\$3.5 million, i.e. from US\$15.0 million to US\$11.5 million.

Project Benefits

5. Despite the proposed changes, the basic objectives of the Project (i.e. increasing access to primary education and improving skills of new workers and those employed) would essentially be met, although the number of beneficiaries would be lower compared to appraisal estimates. The new and upgraded schools would accommodate some 29,600 primary school children annually by 1985 as compared to the 37,820 projected at appraisal; the two intermediate schools are estimated to have an annual enrollment of 1,520 compared to 4,590 foreseen at appraisal. The five training centers would be able to offer skill upgrading courses in about 30 occupations with a direct annual output of about 4,600 workers compared to 7,700 at appraisal.

Closing Date

6. If the Board agrees with the above proposal the Project Closing Date would be extended by a year i.e., from December 31, 1982 to December 31, 1983, after which the progress of implementation of the revised program and the possible need to further extend the Closing Date would be reviewed.

Recommendations

7. In the absence of objections (to be communicated to the Vice President and Secretary or Deputy Secretary by the close of business on _____) I propose to amend the legal documents for Loan 1404-B0 to reflect the above changes.

OFFICE MEMORANDUM

DATE: March 22, 1983

TO: Loan Committee Members (see distribution below)

FROM: Norman Horsley, Senior Operations Advisor, SVPOP

EXTENSION: 76991

SUBJECT: BOLIVIA: Enclave Project

Among matters to be discussed at the Loan Committee meeting on Thursday, March 24, 1983 at 3:30 pm are:

- a. Bolivia's credit worthiness (actual and potential) for Bank lending
- b. the legal security offered and the likelihood of obtaining any legislative changes that it may entail
- c. the financial security, and the value of assurances that sales receipts will be obtained, deposited in the right place and made available on request.

Distribution:

Messrs. E. Stern, M. Qureshi, H. Scott, N. Ardito-Barletta,
S. Husain

cc: Messrs. W. Wapenhans(EAVP), A.D. Knox (WAVP), D. Hopper (SAVP),
A. Karaosmanoglu (EA&PVP), R. Chauffournier (EMENA),
W. Baum (SVPOP), H. Fuchs (IND), C. Dewey (IND),
D. Goldberg (LEG), J. Collell (LEG), S. van der Meer
(LCP), G. Renger (LCP), C. Walzer (LEG), P. Scherer
(LC2), R. Sullivan (LC2), Ms. J. Pratt (SVPOP),
Ms. M. Haug (IND)

76256
76256

Attachments

NHorsley:mm

OFFICE MEMORANDUM

TO: Files

DATE: September 8, 1982

FROM: E. Lerdau

SUBJECT: Bolivia - Annual Meetings, 1982

Two meetings took place in Toronto on September 7, 1982. At both meetings, Bolivia was represented by Messrs. Delgadillo, Fabri, Cariaga and Blanco; at the first, Messrs. Barletta and Lerdau were present, and at the second, Messrs. Stern and Lerdau and Ms. Pratt.

First Meeting

The Delegation reported on the economic situation and on the Government's plans. GDP this year may fall by up to 15%; bread is scarce and inflation was 100% in the first semester. A plan had been worked out with the help of the Fund's and the Bank's Representatives.

Fiscal measures were the main thing. Without them, the public sector deficit in 1982 would be some B\$60 billion; the proposed measures would lower this to B\$21 billion of which B\$9 billion were unfinanced. The principal measures were:

- (a) End flour subsidies.
- (b) Raise fuel prices by up to 380%, ENDE tariffs by 150% now and by 100% in January and another 100% in June, rail-road, airline and bus tariffs by 100%, etc.
- (c) Unify exchange rates at floating rate with Central Bank intervention.

These were socially explosive and painful measures, but they were needed as the debt situation was critical. In September-October US\$50 million were due to the commercial banks (US\$12 million on September 9th) and they could not be paid. This was the already rescheduled debt. They understood that IBRD loans could not be rescheduled, but they wanted help from the Bank. In particular, a SAL would be welcome; the U.S. Ambassador in Bolivia had assured them that one could be had.

Mr. Barletta pointed out that the Ambassador could not speak for the Bank and that under present circumstances a SAL would be difficult. However, some project lending could be envisaged once an agreement with the IMF was in place.

Second Meeting

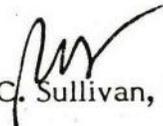
The same points as in the preceding two paragraphs arose. Mr. Stern made the following points:

- (a) The Ambassador did not speak for the Bank;
- (b) he was not unmindful of the heroic nature of the measures planned, but the past record of longevity of Bolivian programs was not good;
- (c) the previous SAL had been made to a transitional government because he had let himself be persuaded that its successors would follow the same policies; events had turned out otherwise, as some Executive Directors had warned they would. It was therefore not advisable to present them with the same risk again;
- (d) he would agree to one project loan - Vuelta Grande - on the basis of an IMF agreement. Beyond that one would have to see how the program was implemented to decide on another (mining credit) operation; and
- (e) once elections had taken place and a new team was identified, one could discuss the main shape of a SAL with them.

c.c. Mr. Stern
✓ Ms. Pratt
Mr. Ardito Barletta
Mr. Pfeffermann
Mr. Scherer
Senior Economist, LAC II

Ms. Pratt
J

OFFICE MEMORANDUM

TO: FILES 

DATE: June 21, 1982

FROM: Roger C. Sullivan, Sr. Loan Officer, LC2D

SUBJECT: BOLIVIA - Notes on Meeting between Mr. E. Stern and Mr. A. Linares,
Minister of Planning and Coordination

1. Mr. A. Linares visited Mr. Stern on June 11, 1982 for general discussions and to petition the Bank for an early resumption of lending. Also attending were Messrs. Blanco (Executive Director), Moscoso (Undersecretary of Finance) and Gonzales (Economic Advisor) for Bolivia and Messrs. Lerdaу, Sullivan and Mrs. Pratt of the Bank.

2. Mr. Linares reviewed Bolivia's worsening economic situation. The country has negative foreign exchange reserves, high external debt and a poor debt structure. About US\$600 million was due (and would be paid) to commercial banks and other external sources in 1982 out of an estimated US\$1 billion in foreign exchange earnings^{1/}. The country needed US\$80-90 million a month for imports, about twice the amount of foreign exchange available after debt service. Commercial banks had cut off Bolivia's credit and suppliers' credits were scarce. He then reviewed Bolivia's relations with the IMF, US Government and IDB/World Bank:

IMF

The Government has tried to reach an accommodation on a Standby. Since the beginning of 1982, they have taken some of the measures the IMF wants (devaluation and removal of subsidies on most foodstuffs). Meanwhile, salaries on average have increased by only 50% and there is widespread dissatisfaction with the regime. The IMF wants fuel hikes, but these would just lead to demands for higher wages and create increased social/political problems.

U.S.

Bolivia cracked down on coca growers and drug smugglers, plus it has freed all political prisoners. The U.S. had listed these areas for improvement as a condition for new economic assistance. Despite their efforts, the Bolivians have received nothing so far, not even PL480.

IDB/World Bank:

Both institutions are making new lending conditional on an IMF Standby. Bolivia considers this too restrictive. He met with Mr. Ortiz Mena at BID to get some modification of this position. Also, in another conversation, Mr. Caiola confirmed that the IMF would not oppose new lending by either the Bank or IDB.

^{1/} The figure of US\$600 million represents gross payments; we believe about US\$150-200 million in loans from regional Central Banks will be rolled over, reducing net external payments for 1982 to US\$400-450 million.

3. In concluding, Mr. Linares noted additional problems created by the Argentine/British conflict. Argentina was in arrears on payments for the natural gas it was importing from Bolivia. While some underpayment could be understood, because Argentina was a net creditor to the Bolivian Central Bank, the impact on Bolivia was substantial. The combination of all the above factors raised the real possibility of political instability in the next few months. He complimented the Bank on its excellent relationship with the Government (mentioning Messrs. Scherer and Ayub, specifically) and asked for renewed Bank lending to help Bolivia through this crisis.

4. Mr. Stern said he appreciated the substantial problems Bolivia was experiencing. He noted that the Bank did not require a Fund Standby agreement to renew lending. Such an agreement simply signalled that the Government was making a serious effort to deal with its problems. There were three interrelated issues that required attention: (i) the need to service Bank debt, particularly the current overdue service payments which could bring a suspension of all disbursements if not paid; (ii) the problem of inadequate foreign exchange to finance basic import requirements; and (iii) political instability. These issues could be dealt with more easily in a growth environment, and for this the Government needed to take adequate measures now.

5. The Bank has a strong pipeline of projects (Vuelta Grande; mining, etc.), but we couldn't present these to our Board and tell them with certainty that the loans would be repaid. It is not a question of US political views or the specifics of an IMF agreement, rather it was a matter of the Government taking steps to provide some assurance that (i) Bank loans will be repaid and (ii) that the systems will be put in place to help bring the country out of a recession and provide internal stability. Some specific areas where Mr. Linares could provide immediate assistance were in connection with the rehabilitation of Banco Agricola and implementation of a new system for control of the public sector investment program. These matters were far advanced and were awaiting final consideration by the Council of Economic Ministers.

6. Mr. Linares hoped the Bank would not have to suspend disbursements and he would personally look into the matter on his return. (The Government paid the amounts that were due on April 1 and May 3, on June 16). In regard to the IMF, the Government had 3 possible positions: (i) ignore the IMF; (ii) to meet as much of the IMF program as possible given the social/political environment; and (iii) fulfill all the IMF's requirements. The Government had chosen the second option, and he hoped the Bank would assess the substantial progress that had been made to determine if it could renew lending.

7. Mr. Stern replied that the Bank would take another look at what measures the Government had taken, as well as what actions were planned for the future and their implementation schedule. If previous and proposed measures meet our basic concerns (para 5), then the Bank would start lending again.

Cleared with and cc: Mr. Lerdau

cc: Messrs. Stern, Ardito Barletta, Scherer, LC2; Ayub, Res. Rep. and Ms. Pratt, SVPOP

RCSullivan:gc/vv

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Project files*

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TO:

CITY/COUNTRY

LA PAZ, BOLIVIA

- 1. TCNL. DEMA FRANZ MOSCOSO R.
EXECUTIVE DIRECTOR
ADMINISTRACION DE AEROPUERTOS Y SERVICIOS
AUXILIARES A LA NAVEGACION AEREA (AASANA)
AV. MONTES NO. 716
- 2. LIC. LUCIO PAZ RIVERO
MINISTER OF FINANCE
TELEX BX 2617
- 3. LIC. GONZALO RUIZ-BALLIVIAN
PRESIDENT
CENTRAL BANK OF BOLIVIA
TELEX BX 2426

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CLASS OF SERVICE

TELEX NO.

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ADDRESSED TO TCNL. DEMA FRANZ MOSCOSO R. FOR INFORMATION MESSRS.

CITY/COUNTRY

PAZ RIVERO AND AYUB. IN ACCORDANCE WITH ARTICLE VI, SECTION
6.02(A) AND (B) OF THE GENERAL CONDITIONS APPLICABLE TO LOAN AND
GUARANTEE AGREEMENTS, IT IS WITH DEEP REGRET THAT I MUST INFORM
YOU THAT THE BANK WILL HAVE TO SUSPEND DISBURSEMENTS ON LOAN
1423-B0, EFFECTIVE JUNE 15, 1982, UNLESS ALL OUTSTANDING PAYMENTS
ON LOANS AND CREDITS REGARDLESS OF WHO THE BORROWER IS HAVE BEEN
RECEIVED ON OR BEFORE THAT DATE BY THE BANK OR THE ASSOCIATION AS
THE CASE MAY BE. REGARDS, PETER R. SCHERER, INTBAFRAD

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SUBJECT	Bolivia - Suspension of Disb. Ln. 1423-B0	INITIALS	6/8/82
CLEARANCE AND COPY DISTRIBUTION	Cleared with and cc: Mr. Cucullu Ms. Augusto cc: Messrs. Ardito Barletta, Lerdau, Torres	AUTHORIZED BY	HJNissenbaum/VLWilcher <i>vw</i>
		DEPARTMENT	Peter R. Scherer <i>[Signature]</i>
			LC2

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TO:

CITY/COUNTRY

LA PAZ, BOLIVIA

1. GENERAL MARIO TERAN
GENERAL MANAGER
EMPRESA NACIONAL FERROCARRILLES
TELEX BX 5539

2. LIC. LUCIO PAZ RIVERO
MINISTER OF FINANCE
TELEX BX 2617

3. LIC. GONZALO RUIZ-BALLIVIAN
PRESIDENT
CENTRAL BANK OF BOLIVIA
TELEX BX 2426

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CLASS OF SERVICE

TELEX NO.

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CITY/COUNTRY

ADDRESS TO GENERAL MARIO TERAN, GENERAL MANAGER OF ENFE, FOR
INFORMATION MESSRS. PAZ RIVERO AND AYUB. I WOULD GREATLY
APPRECIATE YOUR COOPERATION IN SETTLING ENFE'S OUTSTANDING
SERVICE PAYMENTS TO THE BANK, IN RESPECT OF LOAN NO. 1422-BO,
WHICH CONSIST OF USDOLLARS 2,349,025.45 AND 77,113.19 TOTTALLING
USDOLLARS 2,426,138.64 AS OF APRIL 1, 1982. UNDER THESE
CIRCUMSTANCES, AND IN ACCORDANCE WITH ARTICLE VI, SECTION 6.02(A)
AND (B) OF THE GENERAL CONDITIONS APPLICABLE TO LOAN AND
GUARANTEE AGREEMENTS, IT IS WITH DEEP REGRET THAT I MUST INFORM
YOU THAT THE BANK WILL HAVE TO SUSPEND DISBURSEMENTS ON LOAN
1422-BO, EFFECTIVE JUNE 15, 1982, UNLESS ALL OUTSTANDING PAYMENTS
ON LOAN 1422-BO AND ALL OTHER LOANS AND CREDITS HAVE BEEN
RECEIVED ON OR BEFORE THAT DATE BY THE BANK OR THE ASSOCIATION AS
THE CASE MAY BE. REGARDS, PETER R. SCHERER, INTBAFRAD

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CLASS OF SERVICE

Telex

TELEX NO.

DATE 6/8/82

SUBJECT Bolivia - Suspension of Disb.
Ln. 1422-BO

DRAFTED BY:
HJNissenbaum /VLWilcher

Cleared with and cc: Mr. Cucullu
Ms. Augusto
cc: Messrs. Ardito Barletta, Lerdau,
Torres

AUTHORIZED BY:
Peter R. Scherer

DEPARTMENT LC2

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FROM: The President

March 30, 1982

BOLIVIA - Proposed Amendments to the
Aviation Development Project
(Loan No. 1423-B0)

1. This loan of US\$25.0 million was approved on May 12, 1977 and became effective on September 29, 1977. As of December 30, 1981, a total of \$15.4 million remained undisbursed. Because of increases in the cost of the project and severe reductions in the Government's investment program, the memorandum proposes a reduction in the scope of the project, while maintaining the original amount of the Bank loan.

PART I - HISTORICAL BACKGROUND

2. The loan was originally intended to help the Airports and Air Navigation Services Administration (AASANA) finance:

- (a) design and construction of two new airports (Riberalta and San Borja) and of major improvements of two others (Santa Ana and Tarija);^{1/}

1/ Tarija is in the southern Tarija Department; the other three airports are in the remote northern Beni Department.

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

*Comments on this document should be referred to Mr. H. Nissenbaum (ext. 76253)

- (b) design for construction of new facilities for the Cochabamba airport;
- (c) provision of visual aids at the four airports mentioned in para. 2(a) above and of aeronautical communications, navigational aids and maintenance equipment at selected airports throughout Bolivia; and
- (d) 25 man-years of technical assistance and 30 man-years of training.

3. The implementation of the project has been slow. The reasons are: (i) insufficient Government budget allocations to AASANA; (ii) the failure to adjust AASANA's user charges in line with its investment needs; (iii) managerial weakness of AASANA, which has had five changes of directors in the past two years; and (iv) cumbersome Government procurement procedures. Meanwhile, higher international inflation than projected during appraisal in 1976 and the delay in project implementation have rendered inadequate the provisions for price contingencies. Also project costs rose more than estimated because of unforeseen upward adjustments in the risk factor applied by suppliers and contractors in the wake of recent economic and political difficulties in the country. As a result, the cost of the project, estimated originally at US\$39.5 million, increased to approximately US\$87 million by June 1981.

4. To date, the following project components have been implemented. The runway improvements at the Tarija airport have been completed with the exception of the drainage canal, which is now expected to be finished this month. Final designs have been completed for the other four project airports. The project maintenance equipment has been installed in airports throughout the country. Most of the navigational aids have been delivered and are being installed at Riberalta and Santa Ana. Four of the five planned experts are on duty and the remaining position (financial advisor) is expected to be filled shortly. AASANA technicians have already received over half of the scheduled 30 man-years of training financed under the loan. Meanwhile, the management of AASANA has been consolidated and there have been no changes in AASANA's directors over the past year. In addition, the Government is now considering a Bank proposal for several changes in legislation to expedite procurement procedures in projects financed by international development agencies.

PART II - PROPOSED REVISION OF THE PROJECT

5. The Government has now proposed to:
- (a) concentrate the remaining proceeds of the loan on the procurement of the communications, navigational and visual aids originally proposed as well as some additional maintenance equipment (estimated to cost about US\$1.0 million);
 - (b) eliminate the new airports proposed for construction (Riberalta and San Borja) and the runway and ancillary improvements at Santa Ana; and to
 - (c) retain the five technical advisors until the communications equipment is fully operational, now expected to be December 31, 1983.

6. This reduction in the scope of the project is intended to revise the orientation of the project in line with the new investment priorities of the Government in the aviation sector. The proposed revisions are based on the conclusions of the Bolivian National Transport Study prepared by consultants (Wilbur Smith and Associates-U.S.) financed under the Third Railway Project (Ln. 1422-B0); the report was published in July 1981. Moreover, the proposed revisions are consistent with the stringent limits on Government resources. Bolivia's present economic problems do not allow the Government to provide the amount of counterpart financing to meet the increased requirements of the project as originally defined. A country economic report analyzing those problems will be distributed to the Board before the end of the fiscal year.

7. While fewer airports would be constructed and improved, the primary objective of the project--to improve the reliability of domestic air service and allow the use of more efficient aircraft in isolated areas of Bolivia--would still be substantially achieved. The projected air navigational aid and communications equipment would fill gaps to complete the systems for the country. These improvements would enable Bolivia's air carriers, which previously had obsolete or, for some, no aids and communications to overcome hazardous conditions. Safety problems have contributed to delays, cancellations and diversions of air services, which in turn has led to a costly low utilization of aircraft. The forecast increase in reliability of domestic air service would encourage traffic, which in turn would increase the potential for transport cost savings. Lloyd-Aereo Boliviano (LAB), the principal domestic carrier, would also benefit by shortening its routes through the elimination of deviations previously required for safe navigation. The private cargo operators engaged in transporting meat from the virtually inaccessible Beni area would also be able to lower their operating costs by using more direct air routes through the mountains. The communications equipment to be purchased would incorporate new technological advances, i.e., solid state equipment rather than the tube type planned during appraisal, and provide reliable, maintenance-free service.

8. The proposed increase in maintenance equipment responds to the conclusions of the aforementioned national transport study, which stated that many airfields were in poor condition and that there was almost no current maintenance of airports which lack paved runways. Subsequently, the Government, after discussions with the Bank, agreed to amend its aviation investment program in conformity with the transport study recommendations. 58% of the 1981-83 and 95% of the 1984-86 investments would be directed to maintenance and rehabilitation activities. AASANA plans to undertake no new civil works or improvement investments in 1982 and, after that, only those recommended by the transport plan. In Bolivia, numerous outlying airports are out of service because of runway conditions in the rainy season. While the proposed changes would eliminate the originally contemplated surfacing of runways at the three Beni airports, the expanded volume of maintenance equipment envisaged would enable AASANA to maintain the "soft" surfaces of the airports with relatively little traffic and hence permit delaying hard surface paving.

9. The proposed delay in construction or improvement of the three Beni airports would be consistent with revised aircraft purchase plans in Bolivia. LAB had been planning to substitute B-727 aircraft for its aging F-27 fleet, which constituted the basis for paving the three airports. However, LAB is now intending to substitute B-737 aircraft which can operate from unpaved runways, unlike the heavier B-727s. Moreover, the Bolivian meat carriers have delayed the planned upgrading of their air fleet from DC-3's and C-46's to larger, more efficient aircraft. Consequently, they are still able to use the Beni airports in their existing condition; therefore, the originally contemplated civil works would not be justified at this time.

10. The costs for equipment have increased considerably above the appraisal estimates because of the delays in implementation and other factors described in paragraph 3 above, except for the maintenance equipment which was purchased within the first year of the project. The cost of the communications equipment, originally calculated (including contingencies) at US\$2.5 million, is now estimated at US\$10.5 million; visual aids equipment, US\$3.0 million, compared with US\$1.7 million previously; and navigational aids, US\$4.6 million, compared with US\$1.1 million previously. Overall, these amount to an increase of 2.9 times. However, benefits due to savings in aircraft use have also increased substantially due to inflation and increased fuel prices. For a typical aircraft (F-27), the costs per blockhour in 1981 were US\$1,415, compared to a figure in 1976 of US\$427, an increase of about 3.3 times. Consequently, savings in cost per aircraft hour and also per passenger and cargo ton kilometers have increased more than equipment price rises. Benefits in the Staff Appraisal Report for nav aids and visual aids were grouped together with other benefits for each airport. Regrouping these benefits and updating them to 1980 price levels shows a total of benefits for 1981 of about US\$3.8 million. These combined with the estimated 10% traffic growth results in a new estimated rate of return of about 16% for communications equipment, 24% for navigational and visual aids, 31% for Tarija airport construction and 21% for maintenance equipment. The overall revised return for the total project would average 21%, compared with the original estimate of 19%.

11. The proposed reduction in the number of airports to be constructed and improved, partially offset by the increased equipment prices, would reduce the original project cost by US\$7.5 million to an estimated US\$32.0 million. The foreign exchange component is now estimated at US\$27.0 million. The Bank loan of US\$25.0 million would, therefore, finance 78% of total project cost and 93% of the foreign exchange component. AASANA would finance the remaining US\$2.0 million, as well as the US\$5.0 million local cost requirements, thus minimizing the burden on the Government's limited financial resources. Disbursement rates would be the same as those originally approved by the Executive Directors in 1977. (See Attachment 1 for original and revised allocation of loan proceeds.)

12. The Government has given the Bank assurances that AASANA will obtain the financial resources needed to complete the revised project. It raised aviation user charges (landing fees, passenger departure fees, rentals, etc.) by about 50% on March 1, 1982, in order to enable AASANA to meet its investment needs more adequately. The Government also has agreed to consider further user charges increases to permit AASANA to achieve beginning in 1983 the covenanted overall working ratio of 60%.

Conclusion

13. The primary objectives of the project remain unchanged. With the proposed reduction, given the Government's continuing commitment to the project and the progress already achieved, it is considered that the project could be completed satisfactorily by December 31, 1983, six months later than originally defined and that it would still contribute constructively to the development of the aviation sector.

Recommendation

14. In the absence of objection, which should be communicated to the Vice President and Secretary or Deputy Secretary by close of business on April 12, 1982, I propose to amend Loan Agreement 1423-B0 to reflect the above-mentioned changes.

A. W. Clausen
President

Attachment

PROPOSED MODIFICATION

SCHEDULE 1

WITHDRAWAL OF THE PROCEEDS OF THE LOAN

Original Allocation

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in dollar equivalent)</u>	<u>% of Expenditures to be Financed</u>
I. Civil Works	11,260,000	56%
II. Equipment, Materials and Installation	4,300,000	100% of foreign expenditures
III. Engineering Consultant's Services	2,100,000	70%
IV. Technical Assistance and Training	1,340,000	100% of foreign expenditures
V. Unallocated	<u>6,000,000</u>	
	25,000,000	

Proposed Allocation

I. Civil Works	2,000,000	56%
II. Equipment, Materials and Installation	19,900,000	100% of foreign expenditures
III. Engineering Consultant's Services	1,600,000	70%
IV. Technical Assistance and Training	1,500,000	100% of foreign expenditures
V. Unallocated	<u>- 0 -</u>	
	25,000,000	

~~JK~~

March 23, 1982

~~EK~~

Mr. Stern:

BOLIVIA: Proposed Amendment to the Aviation
Development Project (Loan No. 1423-BO)

The proposal in the attached memorandum aims at reducing the scope of this FY77 Aviation Project in such a way that the Bank funds, plus some Government funds, would be sufficient to complete the project, the cost of which has gone up from \$39.5 million to \$87 million. This objective probably makes sense (since the rate of return of the revised project would average 21% as compared to the 19% of the original project), but the proposal raises a few questions as follows:

Seems a bit hard to ask for continuity in AASANA Directors when the average length of a Govt is 7 months.

- (i) One of the major reasons for the delay of the project was managerial weakness of AASANA. Nothing seems to be proposed to improve this institution.
- (ii) Another reason was the cumbersome Government procurement procedures. Again, nothing seems to be proposed to deal with that problem. *ask Rajou*
- (iii) While aviation user charges were increased by about 50% on March 1, 1982, it is not clear whether this will be sufficient to fully remove yet another reason for past project delay. The last sentence in paragraph 12 of the draft President's memorandum is a little bit vague in this respect. *seems ok*
- (iv) Through the very substantial reduction in project scope the total cost is now estimated at \$32 million. This will result in the Bank loan now financing 78% instead of the original 63% of total cost, although still less than the full foreign exchange component, only 93%. *ok*

1. passed comments +
decrease in to Mr. Nissenba
 2. ~~NH~~
 3. File
- Elu 3/25*

E. Kupp

EK

OFFICE MEMORANDUM

TO: Mr. Ernest Stern, SVPOP DATE: March 22, 1982

FROM: Nicolas Ardito Barletta *AB*

SUBJECT: BOLIVIA - Proposed Amendment to the Aviation Development Project (Loan No. 1423-BO)

*OK
ES
3/22/82*

1. Attached for your approval are a draft President's Memorandum and a draft amendment of the Loan Agreement. We propose to distribute these documents to the Executive Directors for approval on a "no-objection basis."
2. The most important changes in the project are as follows:
 - (a) a reduction from \$11.3 million to \$2.0 million in the civil works component by eliminating the scheduled construction of two new domestic airports plus runway improvements at a third airport; and
 - (b) an increase from \$4.3 million to \$19.9 million in the procurement of communications, navigational aid and maintenance equipment.

These changes would serve to reduce the scope of the project to a size that could be completed with the existing loan of US\$25 million, supplemented by the increased revenues which will be generated by the Government's increase in user charges of about 50% effective March 1, 1982. The project amendments are necessitated by the Government's inability to provide the counterpart financing that would be needed to meet the increased costs of the project as originally defined, arising from implementation delays and higher international inflation than projected during the 1976 appraisal. While fewer airports would be constructed and improved and the Closing Date of the Loan would be extended by six months, the primary objective of the project would still be substantially achieved. Moreover, a recalculation indicates that the revised return for the project would average 21%; the original estimated return was 19%.

3. Comments on the attached documents should be directed to Mr. H. Nissenbaum (extension 76253).

Attachments

Cleared with and cc: Messrs. Lerdau, LC2; Bertao, LEG; Jennings, Newman Bostrom, Zetterstrom, LCP; Ms. Augusto, LOA;

cc: Messrs. Clausen; Baum; Qureshi; Choi; Rajagopalan, PAS; Raizen, CPSVP; Willoughby, TWT; Pfeiffermann, LCNVP; Scherer Carter, Zaghera, LC2; van der Meer, LCP; Ayub, Res. Rep.

Original returned to A-B. Ma. 29/82

FROM: The President

March , 1982

BOLIVIA - Proposed Amendments to the
Aviation Development Project
(Loan No. 1423-BO)

1. This loan of US\$25.0 million was approved on May 12, 1977 and became effective on September 29, 1977. As of December 30, 1981, a total of \$15.4 million remained undisbursed. Because of increases in the cost of the project and severe reductions in the Government's investment program, the memorandum proposes a reduction in the scope of the project, while maintaining the original amount of the Bank loan.

PART I - HISTORICAL BACKGROUND

2. The loan was originally intended to help the Airports and Air Navigation Services Administration (AASANA) finance:

- (a) design and construction of two new airports (Riberalta and San Borja) and of major improvements of two others (Santa Ana and Tarija);^{1/}

^{1/} Tarija is in the southern Tarija Department; the other three airports are in the remote northern Beni Department.

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

*Comments on this document should be referred to Mr. H. Nissenbaum (ext. 76253)

- (b) design for construction of new facilities for the Cochabamba airport;
- (c) provision of visual aids at the four airports mentioned in para. 2(a) above and of aeronautical communications, navigational aids and maintenance equipment at selected airports throughout Bolivia; and
- (d) 25 man-years of technical assistance and 30 man-years of training.

3. The implementation of the project has been slow. The reasons are: (i) insufficient Government budget allocations to AASANA; (ii) the failure to adjust AASANA's user charges in line with its investment needs; (iii) managerial weakness of AASANA, which has had five changes of directors in the past two years; and (iv) cumbersome Government procurement procedures. Meanwhile, higher international inflation than projected during appraisal in 1976 and the delay in project implementation have rendered inadequate the provisions for price contingencies. Also project costs rose more than estimated because of unforeseen upward adjustments in the risk factor applied by suppliers and contractors in the wake of recent economic and political difficulties in the country. As a result, the cost of the project, estimated originally at US\$39.5 million, increased to approximately US\$87 million by June 1981.

4. To date, the following project components have been implemented. The runway improvements at the Tarija airport have been completed with the exception of the drainage canal, which is now expected to be finished this month. Final designs have been completed for the other four project airports. The project maintenance equipment has been installed in airports throughout the country. Most of the navigational aids have been delivered and are being installed at Riberalta and Santa Ana. Four of the five planned experts are on duty and the remaining position (financial advisor) is expected to be filled shortly. AASANA technicians have already received over half of the scheduled 30 man-years of training financed under the loan.

PART II - PROPOSED REVISION OF THE PROJECT

5. The Government has now proposed to:
- (a) concentrate the remaining proceeds of the loan on the procurement of the communications, navigational and visual aids originally proposed as well as some additional maintenance equipment (estimated to cost about US\$1.0 million);
 - (b) eliminate the new airports proposed for construction (Riberalta and San Borja) and the runway and ancillary improvements at Santa Ana; and to
 - (c) retain the five technical advisors until the communications equipment is fully operational, now expected to be December 31, 1983.

6. This reduction in the scope of the project is intended to revise the orientation of the project in line with the new investment priorities of the Government in the aviation sector. The proposed revisions are based on the conclusions of the Bolivian National Transport Study prepared by consultants (Wilbur Smith and Associates-U.S.) financed under the Third Railway Project (Ln. 1422-B0); the report was published in July 1981. Moreover, the proposed revisions are consistent with the stringent limits on Government resources. Bolivia's present economic problems do not allow the Government to provide the amount of counterpart financing to meet the increased requirements of the project as originally defined. A country economic report analyzing those problems will be distributed to the Board before the end of the fiscal year.

7. While fewer airports would be constructed and improved, the primary objective of the project--to improve the reliability of domestic air service and allow the use of more efficient aircraft in isolated areas of Bolivia--would still be substantially achieved. The projected air navigational aid and communications equipment would fill gaps to complete the systems for the country. These improvements would enable Bolivia's air carriers, which previously had obsolete or, for some, no aids and communications to overcome hazardous conditions. Safety problems have contributed to delays, cancellations and diversions of air services, which in turn has led to a costly low utilization of aircraft. The forecast increase in reliability of domestic air service would encourage traffic, which in turn would increase the potential for transport cost savings. Lloyd-Aereo Boliviano (LAB), the principal domestic carrier, would also benefit by shortening its routes through the elimination of deviations previously required for safe navigation. The private cargo operators engaged in transporting meat from the virtually inaccessible Beni area would also be able to lower their operating costs by using more direct air routes through the mountains. The communications equipment to be purchased would incorporate new technological advances, i.e., solid state equipment rather than the tube type planned during appraisal, and provide reliable, maintenance-free service.

8. The proposed increase in maintenance equipment responds to the conclusions of the aforementioned national transport study, which stated that many airfields were in poor condition and that there was almost no current maintenance of airports which lack paved runways. Subsequently, the Government, after discussions with the Bank, agreed to amend its aviation investment program in conformity with the transport study recommendations. 58% of the 1981-83 and 95% of the 1984-86 investments would be directed to maintenance and rehabilitation activities. AASANA plans to undertake no new civil works or improvement investments in 1982 and, after that, only those recommended by the transport plan. In Bolivia, numerous outlying airports are out of service because of runway conditions in the rainy season. While the proposed changes would eliminate the originally contemplated surfacing of runways at the three Beni airports, the expanded volume of maintenance equipment envisaged would enable AASANA to maintain the "soft" surfaces of the airports with relatively little traffic and hence permit delaying hard surface paving.

9. The proposed delay in construction or improvement of the three Beni airports would be consistent with revised aircraft purchase plans in Bolivia. LAB had been planning to substitute B-727 aircraft for its aging F-27 fleet, which constituted the basis for paving the three airports. However, LAB is now intending to substitute B-737 aircraft which can operate from unpaved runways, unlike the heavier B-727s. Moreover, the Bolivian meat carriers have delayed the planned upgrading of their air fleet from DC-3's and C-46's to larger, more efficient aircraft. Consequently, they are still able to use the Beni airports in their existing condition; therefore, the originally contemplated civil works would not be justified at this time.

10. The costs for equipment have increased considerably above the appraisal estimates because of the delays in implementation and other factors described in paragraph 3 above, except for the maintenance equipment which was purchased within the first year of the project. The cost of the communications equipment, originally calculated (including contingencies) at US\$2.5 million, is now estimated at US\$10.5 million; visual aids equipment, US\$3.0 million, compared with US\$1.7 million previously; and navigational aids, US\$4.6 million, compared with US\$1.1 million previously. Overall, these amount to an increase of 2.9 times. However, benefits due to savings in aircraft use have also increased substantially due to inflation and increased fuel prices. For a typical aircraft (F-27), the costs per blockhour in 1981 were US\$1,415, compared to a figure in 1976 of US\$427, an increase of about 3.3 times. Consequently, savings in cost per aircraft hour and also per passenger and cargo ton kilometers have increased more than equipment price rises. Benefits in the Staff Appraisal Report for nav aids and visual aids were grouped together with other benefits for each airport. Regrouping these benefits and updating them to 1980 price levels shows a total of benefits for 1981 of about US\$3.8 million. These combined with the estimated 10% traffic growth results in a new estimated rate of return of about 16% for communications equipment, 24% for navigational and visual aids, 31% for Tarija airport construction and 21% for maintenance equipment. The overall revised return for the total project would average 21%, compared with the original estimate of 19%.

11. The proposed reduction in the number of airports to be constructed and improved, partially offset by the increased equipment prices, would reduce the original project cost by US\$7.5 million to an estimated US\$32.0 million. The foreign exchange component is now estimated at US\$27.0 million. The Bank loan of US\$25.0 million would, therefore, finance 78% of total project cost and 93% of the foreign exchange component. AASANA would finance the remaining US\$2.0 million, as well as the US\$5.0 million local cost requirements, thus minimizing the burden on the Government's limited financial resources. Disbursement rates would be the same as those originally approved by the Executive Directors in 1977. (See Attachment 1 for original and revised allocation of loan proceeds.)

12. The Government has given the Bank assurances that AASANA will obtain the financial resources needed to complete the revised project. It raised aviation user charges (landing fees, passenger departure fees, rentals, etc.) by about 50% on March 1, 1982, in order to enable AASANA to meet its investment needs more adequately. The Government also has agreed to consider further user charges increases to permit AASANA to achieve, beginning in 1983, the covenanted overall working ratio of 60%.

Conclusion

13. The primary objectives of the project remain unchanged. With the proposed reduction, given the Government's continuing commitment to the project and the progress already achieved, it is considered that the project could be completed satisfactorily by December 31, 1983, six months later than originally defined and that it would still contribute constructively to the development of the aviation sector.

Recommendation

14. In the absence of objection, which should be communicated to the Vice President and Secretary or Deputy Secretary by close of business on _____, I propose to amend Loan Agreement 1423-BO to reflect the above-mentioned changes.

A. W. Clausen
President

Attachment

PROPOSED MODIFICATION

SCHEDULE 1

WITHDRAWAL OF THE PROCEEDS OF THE LOAN

Original Allocation

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in dollar equivalent)</u>	<u>% of Expenditures to be Financed</u>
I. Civil Works	11,260,000	56%
II. Equipment, Materials and Installation	4,300,000	100% of foreign expenditures
III. Engineering Consultant's Services	2,100,000	70%
IV. Technical Assistance and Training	1,340,000	100% of foreign expenditures
V. Unallocated	<u>6,000,000</u>	
	25,000,000	

Proposed Allocation

I. Civil Works	2,000,000	56%
II. Equipment, Materials and Installation	19,900,000	100% of foreign expenditures
III. Engineering Consultant's Services	1,600,000	70%
IV. Technical Assistance and Training	1,500,000	100% of foreign expenditures
V. Unallocated	<u>- 0 -</u>	
	25,000,000	

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R81-213

FROM: The President

July 23, 1981

BOLIVIA - Proposed Revolving Fund for the Education and Vocational Training Project (Ln. 1404-BO)

Summary

1. This memorandum seeks the approval of the Executive Directors to amend the Legal Agreements for the Education and Vocational Training Project in order to establish a revolving fund. The fund would substantially ease the project's present financing difficulties and thus help avoid further delays in project implementation.

Background

2. The retrenchment of the Government budgets in 1980 and 1981 has impaired the Government's ability to prefinance in a timely fashion the Bank's share of local cost expenditures, reimbursement of which takes from one to three months. Funds are available only to meet the Government's share of local costs. Of the 18 ongoing Bank projects, the most seriously affected is the Education Project for which the Bank approved a loan of US\$15.0 million in 1977. The Bank contribution finances all foreign costs and 46% of local costs. The project consists of two parts, viz., a) a primary and community education program, and b) a vocational training program. With only 30% completed, the project is experiencing delays because of local financing constraints.

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may be referred to
Ms. Javier (Ext. 76307)

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Proposed Revolving Fund

3. To speed project completion, the Government requested the Bank to set up a revolving fund which would be sufficient to finance estimated local currency expenditures over a three month period for execution of the primary and community education program, the component of the project that has been hampered most by lack of pre-financing. The proposed fund, which would be set up in the Central Bank, would consist of two separate accounts. The World Bank would deposit \$1.0 million equivalent from the loan in a Working Fund Account and the Government would deposit \$400,000 equivalent in a Project Account. The Project Unit would pay all local expenditures out of the Project Account and would then submit withdrawal applications for the Bank's share to the Central Bank. The Central Bank would withdraw the corresponding amount from the Working Fund and deposit the amount in the Project Account. The World Bank would replenish the Working Fund using normal reimbursement procedures. Meanwhile, the Government would replenish the Project Account its share of local expenditures to ensure that the account is kept at the level of US\$0.4 million equivalent.

Recommendation

4. In the absence of objections (to be communicated to the Vice President and Secretary or Deputy Secretary by the close of business on August 3, 1981), I propose to amend the legal documents for Loan 1404-B0 to establish a revolving fund as described above.

A. W. Clausen
President

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EP/AN - Info + File

OFFICE MEMORANDUM

TO: Mr. Ernest Stern
 (through Mr. Nicolas Ardito Barletta) *ES*
 FROM: Enrique Lerda, Director, LC2
 SUBJECT: BOLIVIA--Proposal for Revolving Fund

DATE: July 21, 1981

This is fine. When revising the legal documents please be sure to clear link Govt replenishment of the Working Fund. It's our responsibility and our Govt falls behind in its contribution from W.F. Should cease
ES
7/22

1. This memorandum is to request your approval to establish a revolving fund for the Education and Vocational Training Project (Loan 1404-BO). The Bank and the Government would make initial contributions of US\$1.0 million equivalent and US\$0.4 million equivalent respectively, to accounts to be established in the Central Bank. I recommend that the fund be established through an amending agreement and that the approval of the Executive Directors be sought on a no-objection basis. Attached is the draft memorandum to the Executive Directors.

The Problem

2. The retrenchment of the Government budgets in 1980 and 1981 has impaired the Government's ability to prefinance in a timely fashion the Bank's share of local cost expenditures, reimbursement of which takes from one to three months. Funds are available only to meet the Government share of local costs. Of the 18 ongoing Bank projects, the most seriously affected are the Education Project and three agricultural projects: Ingavi, Ulla Ulla and Omasuyos-Los Andes. Under these loans, the Bank is financing the foreign exchange costs and between 40-60% of local costs.

3. The Bank loan of US\$15.0 million for the Education Project approved in 1977, finances all the project's foreign costs and about 46% of local ones. With only 30% completed, the project is experiencing delays because of local financing constraints. To speed project completion, the Government requested the Bank to set up a revolving fund which would be sufficient to finance estimated local currency expenditures over a three month period for execution of the primary and community education program, the component of the project that has been hampered most by lack of pre-financing. If the proposed fund meets expectations, the Government will likely request similar funds for the three agricultural projects.

Revolving Fund Mechanism

4. The proposed revolving fund, which would consist of two separate accounts, would be set up in the Central Bank. The World Bank would deposit \$1.0 million equivalent from the loan in a Working Fund Account and the Government would deposit \$400,000 equivalent in a Project Account. The Project Unit would pay all local expenditures out of the Project Account and would then submit withdrawal applications for the Bank's share to the Central Bank. The Central Bank would withdraw the corresponding amount from the Working Fund and deposit the amount in the Project Account. The World Bank would replenish the Working Fund using normal reimbursement procedures. Meanwhile, the Government would replenish the Project Account its share of local expenditures to ensure that the account is kept at the level of US\$0.4 million equivalent.

5. The foregoing proposal should not only mitigate the Government's present difficulties in pre-financing the Bank's share of local costs but also help enforce some allocative discipline on budgeting public sector expenditures. The fund is expected to help improve the rate of project implementation.

6. The departments concerned agree with the above proposal. Please address any comments to Ms. Javier (Ext. 76307).

Cleared with and cc: Messrs. Glaessner, LCP; Hattori, CTR; Cancio, LEG

cc: Messrs. Johanson, de Regt, Concepcion, LCP; Mole, Torres, CTR; Cancio, Bertao, LEG; Ayub, Resident Representative, La Paz

RCSullivan/EJavier:mac/vv

FROM: The President

BOLIVIA - Proposed Revolving Fund for the
Education and Vocational Training Project (Ln. 1404-BO)

Summary

1. This memorandum seeks the approval of the Executive Directors to amend the Legal Agreements for the Education and Vocational Training Project in order to establish a revolving fund. The fund would substantially ease the project's present financing difficulties and thus help avoid further delays in project implementation.

Background

2. The retrenchment of the Government budgets in 1980 and 1981 has impaired the Government's ability to prefinance in a timely fashion the Bank's share of local cost expenditures, reimbursement of which takes from one to three months. Funds are available only to meet the Government's share of local costs. Of the 18 ongoing Bank projects, the most seriously affected is the Education Project for which the Bank approved a loan of US\$15.0 million in 1977. The Bank contribution finances all foreign costs and 46% of local costs. The project consists of two parts, viz., a) a primary and community education program, and b) a vocational training program. With only 30% completed, the project is experiencing delays because of local financing constraints.

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*Questions on this document
may be referred to
Ms. Javier (Ext. 76307)

Proposed Revolving Fund

3. To speed project completion, the Government requested the Bank to set up a revolving fund which would be sufficient to finance estimated local currency expenditures over a three month period for execution of the primary and community education program, the component of the project that has been hampered most by lack of pre-financing. The proposed fund, which would be set up in the Central Bank, would consist of two separate accounts. The World Bank would deposit \$1.0 million equivalent from the loan in a Working Fund Account and the Government would deposit \$400,000 equivalent in a Project Account. The Project Unit would pay all local expenditures out of the Project Account and would then submit withdrawal applications for the Bank's share to the Central Bank. The Central Bank would withdraw the corresponding amount from the Working Fund and deposit the amount in the Project Account. The World Bank would replenish the Working Fund using normal reimbursement procedures. Meanwhile, the Government would replenish the Project Account its share of local expenditures to ensure that the account is kept at the level of US\$0.4 million equivalent.

Recommendation

4. In the absence of objections (to be communicated to the Vice President and Secretary or Deputy Secretary by the close of business on August , 1981), I propose to amend the legal documents for Loan 1404-BO to establish a revolving fund as described above.

A. W. Clausen
President

MA/JP O/R/ file
7

ES
7-24-81

MEMORANDUM FOR THE VICE PRESIDENT

FROM THE OFFICE OF THE REGIONAL VICE PRESIDENT

NAME	BUCKET
Mr. Sten	

APPROPRIATE DISPOSITION	NOTE AND RETURN
APPROVAL	NOTE AND SEND ON
COMMENT	PER OUR CONVERSATION
FOR ACTION	PER YOUR REQUEST
<input checked="" type="checkbox"/> INFORMATION	PREPARE REPLY
INITIAL	RECOMMENDATION
NOTE AND FILE	SIGNATURE

REMARKS

I fully agree with the attached analysis and recommendations on Bolivia.

Nick - I agree too. But I think that we are not using manpower effectively by continuing to process these projects. They soon become outdated. Having 2 (max) beyond an SAH is plenty - and we could reasonably stop at YC for the one's now in preparation.

FROM

OFFICE MEMORANDUM

TO: Mr. Ardito Barletta
 Through: Enrique Lafont, Director, LAC

DATE: July 15, 1981

FROM: Peter R. Scherer, Division Chief, LC2

SUBJECT: BOLIVIA: Current Status of Affairs

1. The purpose of this memorandum is to give you an update of the present political and economic situation as well as of our lending strategy under present circumstances. For further background, you may be interested in the attached memoranda, prepared by Mr. Ayub at my request. While his political analysis has been overtaken by events, it still provides some flavor on how the situation is evolving in Bolivia.

2. General Cayoja, the most promising and apparently also most intelligent and reasonable, candidate to succeed General Garcia Mesa as President was expelled from the country after his attempted effort to overthrow Garcia Mesa had failed. It is becoming clear now that General Garcia Mesa had little intention to step down. His announcement to do so was merely a ploy to get the opposition out into the open and to let it weaken itself. Garcia Mesa seems to have succeeded by and large. There is no viable alternative candidate in the wings and the military, while divided, appear incapable of mounting a decisive drive for his ouster within the foreseeable future. Also, it is alleged that Garcia Mesa has bought key military staff by letting them participate in the revenues from the drug trade. General Cayoja had intended to preempt the "extended sharing strategy" through a coup but was caught empty-handed.

3. The present stalemate shows the Achilles heel of Bolivia: the political and military leaders pursue personal ambitions tenaciously with little regard for the cost to the country and with little disposition for compromise. Each has sufficient strength to cause trouble and make life uncomfortable for the others but none has the power to assume undisputed leadership. The political stalemate is likely to continue until there is a broad awareness that present policies have run their course, that external bankruptcy and economic collapse are imminent.

4. Garcia Mesa has a good chance to remain in office beyond August 7, 1981, the deadline he had set himself. Both the military and the private sector seem to be reconciled with the prospect of having Garcia Mesa stay on. The private sector, afraid of open conflict, seems to consider this prospect a desirable one. Private sector representatives mentioned that the continuation of Garcia Mesa with the adoption of yet another stabilization package including devaluation, which a new president in all likelihood would not be able to survive. After some time, Garcia Mesa could step down and a new President could come up on a fairly clean plate. The scenario sounds too good to be realistic. With Garcia Mesa, uncertainty will remain and with it the unwillingness of the private sector to invest and the tendency to transfer funds abroad. The political equation is fairly straightforward: the U.S. will not support Garcia Mesa which, together with an apparently hardened position of the Europeans, is likely to have an effect on the Fund, the IDB and the Bank, particularly under present circumstances. Argentina, Venezuela, Brazil, Paraguay and Peru will probably continue to give some support to Garcia Mesa but will soon find out that his Government is a barrel without a bottom.

5. The economic situation continues to deteriorate rapidly. Private sector

investment has decreased to a trickle; GNP is projected to decline slightly in 1981; unemployment is growing and inflation is hovering around 30%. The overvalued exchange rate is threatening to wipe out export competitiveness of all sectors except hydrocarbon. The woes of the mining sector are compounded by a precipitous decline in the metal prices. Only one or two mines are said to be operating at a profit at present. Salaries have been kept low; they are estimated to have dropped sharply in real terms since the beginning of the year. The public sector deficit is projected at 6% of GDP for 1981. Total domestic savings are unlikely to surpass 10% of GDP. Most public enterprises are heavily indebted and will have to cut down on their investment programs. The most critical warning signal comes from the balance of payments. Gross foreign reserves have dwindled to US\$144 million, equivalent to a little more than one month of imports; net international reserves are a negative US\$230 million. The current account deficit for 1981 is projected at about 5% of GDP. Private capital outflows are estimated to have reached US\$100 million in June, barely compensated by swaps, prepayment of mineral and hydrocarbon exports and proceeds from the drug trade.

6. The immediate outlook is uncertain and clouded. Without an agreement on a Fund stand-by or firm expectation that it will materialize within the near future, the private banks will probably press for payment of the amounts due especially if Bolivia would be unable to meet interest payments and push Bolivia into default on its obligations. Any debt rescheduling would seem to be contingent on a change in Government. The amounts required to keep Bolivia solvent in case the private banks do not extend the roll-over, would exceed capabilities of Bolivia's neighbors for financial assistance. Therefore, the Fund has the pivotal role. At any rate, another stabilization program will have a high social cost for Bolivia and provide for a tough test of the country's social and political cohesion. Instability is likely to stay in Bolivia for some time.

7. The economic and political situation has deteriorated to an extent that it precludes any Bank operation under present circumstances. As you know, we have held back Board distribution of the documents for the Vuelta Grande project and issuance of the notice for negotiating the Santa Cruz Agricultural Development project. We have continued, however, appraising the ENDE V power project and a Fourth Mining Credit Project. I suggest we continue processing all projects to the Green Cover stage but hold back distribution to the Loan Committee until Bolivia's political and economic situation has cleared sufficiently to warrant going ahead. We have prepared a fairly comprehensive and thorough Initiating Memorandum for a possible Second Structural Adjustment Loan. As it stands, we shall only be able to go ahead once the Fund's management has decided that there is a basis for a stand-by agreement. Going ahead with a Structural Adjustment loan (our sectoral analysis is essentially completed) in turn would allow resumption of processing the different project loans under consideration. Depending on the quality of the economic policies in place in the context of a stand-by agreement and a structural adjustment loan and the outlook for improvement in the balance of payments, I would envisage that Board presentation of these projects be phased over a period of time even if the loans were to be ready technically. In order of priority, I would think that the Vuelta Grande Gas Recycling loan should come first.

8. While technically we have a strong pipeline for Bolivia with solid priority projects, I am not optimistic about the immediate lending outlook. There is little likelihood for a strong Government emerging that would implement the right economic policies and be acceptable politically to the States and central European countries. We are going ahead as planned with an Updating Economic Mission in

July. The purpose of the mission is to get a thorough and comprehensive macro update of the economy and to complement our sectoral analysis. The economic mission would also allow us to issue a report to the Executive Directors before a second Structural Adjustment loan. For ready reference, I attach a copy of the most recent proposal for the Bolivian lending program. It does not include a Structural Adjustment loan which could not be included without violating the 35% rate. Once the conditions are given for a structural adjustment loan, it will be included. There is room within the aggregate Five Year lending ceilings proposed by P&B.

Attachment

BOLIVIA

Lending Program

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>Total</u>	<u>PAB Prop.</u>	<u>Difference</u>
Bank	<u>80.0</u>	<u>52.0</u>	<u>80.0</u>	<u>65.0</u>	<u>20.0</u>	<u>297.0</u>	<u>360.0</u>	<u>63</u>
IDA	<u>10.0</u>	<u>18.0</u>	<u>15.0</u>	<u>-</u>	<u>25.0</u>	<u>68.0</u>	<u>68.0</u>	<u>-</u>
Mining Credit V	20.0							
COMIBOL Engin. IDA		18.0S						
COMIBOL Development I			50.0S					
ENDE V		35.0S						
ENDE VI			30.0S					
Gas Pipeline				65.0S				
Vuelta Grande	60.0							
Agricultural Dev. I IDA	10.0							
Agricultural Rehab. II IDA			15.0S					
Agriculture Sector IDA					10.0S			
Agriculture Sector Bank					10.0S			
Highway Maintenance II					10.0S			
Railways V		17.0						
Education II IDA					15.0			

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R81-19

FROM: The President

February 11, 1981

BOLIVIA - Proposed Amendments to the
Urban Development Project
(Loan No. 1489-BO)

Summary

1. This memorandum seeks the approval of the Executive Directors to amend the legal agreements for the Urban Development Project in order to reassign responsibilities among various project agencies, expand the slum upgrading component while reducing the number of serviced sites, and improve project implementation. While the amendments would make a number of adjustments in the project, enabling more rapid implementation, the overall objective of providing improved housing and related services to low-income families would remain unaffected.

Background

2. In October 1977, the Executive Directors approved a US\$17.0 million loan to finance a comprehensive and innovative program of slum upgrading, site and service construction, support for artisans and small-scale enterprises, and development of health care services in La Paz, the largest and most congested urban area in Bolivia. The principal components of the project were:

- (a) construction of sites and services by CONAVI (Consejo Nacional de la Vivienda);
- (b) slum upgrading by HAM (Honorable Alacaldia Municipal de La Paz);

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- (c) small-scale enterprise lending by BISA (Banco Industrial, S.A.) with support from HAM in the selection of artisan enterprises; and
- (d) technical assistance to CONAVI, HAM, and BISA to support these programs, to BANVI (Banco Nacional de Vivienda, S.A.M.) as the project's fiscal agent, and to the Ministry of Health to develop poverty-oriented health programs.

3. Project implementation has proceeded slowly and is about two years behind schedule. While the country's chronic economic problems have contributed to the delays, the project's major difficulties have resulted from the uneven performance of the agencies involved in implementation.

Proposed Amendments

4. In view of these developments, the Government has proposed reassigning responsibilities among various project agencies, and in the process, enlarging the slum upgrading component, and reducing the number of serviced sites to be developed. Proposed modifications and revised project costs are summarized, component by component, in Attachment 1. The most important changes are itemized below:

- (a) Reduce CONAVI's responsibility for sites and services. In response to CONAVI's limited implementation capacity and land acquisition difficulties, CONAVI would develop only one area of residential sites and one area of industrial sites, rather than two of each as originally designed.
- (b) Expand the HAM upgrading component. The HAM project unit has established an ongoing and replicable program of slum upgrading in spite of the difficult circumstances since the project began. The proposed changes would provide additional funds to increase HAM's urban upgrading capacity and continue operations up to the project's closing date.
- (c) Introduce a pilot sites and services program with BANVI. BANVI, rather than CONAVI, now seems the agency most likely to replicate the sites and services approach after the completion of this project. BANVI has performed well to date as the fiscal agent for the project, and, in the modified project, would be responsible for the actual implementation of a small number of serviced plots which would be additional to those being completed by CONAVI.
- (d) Expand the health component. Technical assistance to the Health Ministry would be expanded to include a modest low-level health program which would operate in the areas covered by HAM's expanded slum upgrading program.
- (e) Transfer responsibility for the smallest artisan loans from BISA to HAM. As originally designed, HAM has preselected artisans for BISA, but BISA has been reluctant to lend to the very small

artisans the project is supposed to include. Meanwhile, HAM's home improvement loan program has demonstrated HAM's ability to make small loans and recover investments. The proposed modification would allow HAM, as part of its integrated upgrading program, to extend loans of up to the equivalent of \$2,000 to artisans whose operations are too small to interest BISA. Larger loans would be processed by BISA as before.

(f) Reorganization of industrial lots development. Much of CONAVI's responsibility for industrial lots will be transferred to BISA. CONAVI would complete construction of the 6 ha. of industrial lots already under construction on its Rio Seco site, but BISA would manage the selection of enterprises, the sale of the lots, and the recovery of the associated costs. The other 10 ha. of planned industrial lots (which were to have been on CONAVI's second site) would be constructed and managed by BISA.

(g) Provision for early cost recovery by HAM. It was originally expected that beneficiaries of the slum upgrading program would pay for it over a 15-year period, but many have opted for a shorter period of debt. This has resulted in an unexpectedly good cash-flow situation for HAM. A clause would be added to the Municipality project agreement permitting HAM to use funds recovered from the project, which are not required to pay the Municipality's project-related debt, for similar upgrading programs.

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Revised Costs and Financing

5. The total project cost would go up by about US\$2 million, and the increase would be largely financed by the two participating banks (BISA and BANVI). The Bank loan would remain unchanged. The Government would need to provide an additional US\$660,000 equivalent in counterpart funds, all of it in loans for the project agencies. The amount of Government grant financing would remain as before.

Cost Recovery and Cash Flow Impact of the Amendments

6. The project was originally designed to recover an estimated 76% of the investment from the ultimate beneficiaries. This aspect of the project has not changed; the increased involvement by the two banks would raise over all cost recovery to 77%.

7. Project cash flows have been revised for HAM and BANVI. For HAM, the cash flow is positive for every year; BANVI has funds from other sources to finance negative cash flows through 1983. A cash flow for BISA's investment in industrial lots would be prepared by consultants now being contracted, but the cost of these lots is very low in comparison to BISA's overall operations. Therefore, it is expected that BISA would have no problems in financing this program. The expanded health program would still be operated on a grant basis by the Government.

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WBG ARCHIVESDisbursement and Procurement

8. Because the total cost of the project has increased somewhat, some loan disbursement percentages would change. Disbursement percentages for vehicles, equipment, and technical assistance would remain as before, but percentages for the other categories would be reduced. The Bank would finance 60% of expenditures (other than equipment, vehicles, and technical assistance) for BISA and BANVI, 70% for HAM and CONAVI, and 75% for the health program. While procurement generally has been adequate, two changes would be introduced to improve the rate of project implementation. The threshold for civil works contracts that could be exempted from international competitive bidding would be increased from \$250,00 to \$500,000. Based on project experience, international contractors are not interested in bidding on contracts for less than that amount. Secondly, all contracts costing \$50,000 or more would continue to require Bank review, except for those that HAM executes. HAM has executed and would continue to execute a number of small contracts (\$100,000 to \$150,000), for which packaging is not feasible. These contracts have been prepared adequately in the past, but have experienced some delays as a result of the review process. To minimize future delays, HAM would be permitted to enter into contracts costing less than \$250,000 without prior Bank review.

Poverty Impact

9. Despite general increases in local construction costs since appraisal, unit costs for the project have been reduced, primarily because of simplifications in design following consultations with the communities to be served. The estimated costs for upgrading have declined from \$b9,000 per lot at appraisal to less than \$b7,500, and the average cost of a serviced lot, from \$b72,000 to \$b63,000. The project's upgraded and serviced lots would remain affordable to most of the population that lives at or below the absolute poverty threshold.

Revised Project Justification

10. Although progress has been uneven, the project has led to some very positive institutional developments. CONAVI has failed to live up to expectations, and BISA's ability to relate to very small-scale clients has been somewhat disappointing, but the other institutions involved have all exceeded appraisal expectations. BANVI has assumed a more active role in the project's supervision than was originally planned, is managing a USAID housing loan and, with these amendments, would launch its own program of sites and services construction. The health component has moved from planning to implementation faster than expected, and has begun to demonstrate a replicable approach to health care for low-income urban areas. The HAM project unit has far exceeded expectations; there is a good possibility that its project unit will evolve into a municipal corporation or foundation that could repeat integrated upgrading projects on a cost-recovery basis indefinitely. All the innovative concepts that the project was intended to introduce have already gained substantial acceptance and would be put into practice through the amended project, although some of them would be implemented under different institutional arrangements than were envisioned at appraisal. Overall, the rate of return is expected to be at least 18%, the same as that estimated at appraisal.

Recommendation

11. In the absence of objections (to be communicated to the Vice President and Secretary or Deputy Secretary by the close of business on February 24, 1981), I propose to amend the legal documents for loan 1489-B0 to give effect to the modifications as described above.

Robert S. McNamara
President

Attachment

February , 1981

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AMENDED PROJECT--LOAN 1489-BO

Summary of Proposed Changes

	<u>Original</u>		<u>Proposed</u>	
	<u>Scope</u>	<u>Total Cost US\$ Million</u>	<u>Scope</u>	<u>Total Cost US\$ Million</u>
1. <u>Sites and Services Component</u>				
CONAVI:	5,525 residential sites and 16 has. of industrial sites	13.9	2,000 residential sites and 6 has. of industrial sites	7.6
BANVI	Technical assistance only	0.5	400 residential sites	2.3
2. <u>Urban and Market Upgrading Component</u>				
HAM:	Neighborhood upgrading for 4,500 families, 500 home-improvement loans, and 5 markets	4.4	Neighborhood upgrading for about 7,000 families, about 4,000 home-improvement loans and credits for small artisans, and 8 markets	8.2
3. <u>Small-Scale Enterprise and Artisan Component</u>				
BISA:	US\$3.3 million in loans	3.3	US\$2.3 million in loans, plus about 10 has. of industrial sites	5.2
4. <u>Health Component</u>				
Mother-Child Division:	Technical assistance only	0.4	Primary health program	1.2
	<u>TOTAL COST</u>	<u>22.4</u>	<u>TOTAL COST</u>	<u>24.5</u>

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ATTACHMENT I

OFFICE MEMORANDUM

1) ~~NA/AB~~
 2) file

TO: Mr. Ernest Stern

DATE: February 5, 1981

FROM: Mr. Nicolas Ardito Barletta *AB*SUBJECT: BOLIVIA - Urban Development Project (Ln. 1489-BO)
Proposed Amendments to Legal Documents

Approved by Mr. Stern
 2/10

1. Attached for your consideration is a draft memorandum to the Executive Directors requesting their approval, on a no-objection basis, to amend the legal documents for the Urban Development Project (Ln. 1489-BO). Also attached are the draft amending Loan and Project Agreements, which we do not propose to circulate to the Board. The project has suffered from various implementation problems, described below, and requires substantial changes to be completed successfully. The proposed amendments are consistent with the project's objective of providing improved housing services and productive opportunities to the urban poor, and can be implemented without diminishing the project's original rate of return.

2. The project, for which the Executive Directors approved a US\$17 million loan in October 1977, was the first of its type in Bolivia. Partly because of the country's chronic political and economic problems in the intervening period, but mostly as a result of the uneven performance of the agencies involved in implementation, the project is about two years behind schedule, with only US\$1.6 million of the loan disbursed as of January 7, 1981. Despite this situation, good progress has been made on some of its components. The most notable aspect has been the excellent performance of two major project entities, Honorable Alcaldia Municipal de La Paz (HAM), in charge of slum upgrading in La Paz, and Banco Nacional de Vivienda (BANVI), the project's fiscal agent with responsibilities for overall project coordination. Their capabilities and performance have exceeded original estimates. Other project agencies, particularly Consejo Nacional de la Vivienda (CONAVI), in charge of site and service construction, and to some extent Banco Industrial S.A. (BISA), responsible for lending to artisans and small-scale enterprises, have experienced problems and delays in executing some or all of their components. CONAVI has fallen short on site and service construction because of general agency mismanagement and loss of key project staff. BISA, a successful development bank supported by other IBRD loans, lends primarily for manufacturing and mining enterprises and has not shown much interest in lending to very small artisans.

3. Recognizing these factors, the Government has requested a series of adjustments in the project's implementation arrangements, primarily to transfer responsibilities from CONAVI to other project agencies, and in the process, adjusting the number of lots to be serviced and areas to be upgraded to reflect implementation capability. About 3,500 serviced lots would be constructed instead of 5,500 as originally planned, while slum upgrading would be increased to reach about 7,000 families, rather than the 2,500 initially targeted. The number of home improvement loans in the areas to be upgraded would be increased from 500 to about 4,000. In addition, the project's small health component, which has proceeded satisfactorily, would be expanded to include a primary health program.

4. The proposed amendments would provide a substantially improved structure for implementation, based on the actual performance of the entities involved. Increases in project costs would be minimal and would be absorbed by local agencies. The project's poverty orientation would not be adversely affected,

and the recalculated economic rate of return would remain satisfactory at 18%, the same level as at appraisal.

5. The departments concerned have cleared the attached documents. Please give any comments to Mr. Sullivan (Ext. 74062).

Attachments

cc: Mr. McNamara

cc: Messrs. Golsong, VPG; van der Meer, LCP; Lerdau, LC2

RCSullivan:vv