PPIAF Assistance in the Plurinational State of Bolivia

The Plurinational State of Bolivia (Bolivia) is a landlocked country in South America that is bordered by Brazil to the north and east, Paraguay and Argentina to the south, Chile to the southwest, and Peru to the west. The country’s main economic activities include agriculture, forestry, fishing, mining, and manufacturing goods such as textiles, clothing, refined metals, and refined petroleum. Bolivia is also very wealthy in minerals, especially tin. With a population of around 10 million and a GDP per capita of $2,314 (2011 estimates), Bolivia is considered a lower middle-income country according to the Organization for Economic Cooperation and Development.

Technical Assistance for Bolivia’s Public-Private Partnership Enabling Environment

Bolivia was viewed as one of Latin America’s outstanding pioneers of privatization in the 1990s. Its successful and widely acclaimed capitalization program attracted more than $900 million to local infrastructure. In addition, the country’s distribution of privatization proceeds to the population at large had an important demonstration effect. In 1999, to take stock of Bolivia’s experience and assess obstacles to the next generation of infrastructure sector reforms, PPIAF funded a report on private participation in infrastructure in Bolivia, one of the first Country Framework Reports approved after PPIAF’s launch.

The Country Framework Report was structured to help the Government of Bolivia review the country’s experience with private participation in infrastructure and find innovative ways to encourage new public-private partnerships in the sector. The report had three specific objectives:

- Assess the impact of the capitalization transactions undertaken since 1994
- Identify opportunities and mechanisms for private participation in infrastructure services in secondary towns and rural communities
- Reaffirm to the international community Bolivia’s interest in private participation in infrastructure

The activity produced a main report laying out recommendations, supported by a set of sector documents on transport, electricity, and telecommunications. These reports analyze the distributional impact of the privatization of state-owned infrastructure enterprises and look at the benefits reaped by the Bolivian population. Because of political sensitivities relating to the failed water concession in Cochabamba, it was agreed with government officials that the review of the water sector would be limited to a brief description of the La Paz concession in the main report.

Two workshops, one on rural electricity and the other on telecommunications and information and communications technology in secondary cities and rural areas, were held at the start of the activity. These workshops attracted about 60 participants from private providers, government agencies, local governments, financial institutions, and nongovernmental organizations, and provided a venue for addressing issues relating to public service provision in the areas with the lowest coverage in Bolivia.

Some of the key findings of the analysis of experience with private participation in Bolivia relate to cross-sectoral issues:

- A clear picture emerged of service expansion to poorer segments of the population in almost all infrastructure sectors covered in the review (except for passenger rail service), but with a contrasting tendency for utility prices to increase (except in telecommunications, where they fell sharply).
- Because the earlier sector reforms did not specifically address rural needs, some of the new operators had little or no incentive to expand access to adjacent areas, where prices are higher but usage lower.
- Funds collected through concession and license fees have not received proper regulatory treatment, resulting in some not yet being used for their intended purpose.
The Government’s decentralization efforts were putting a strain on municipalities and federal regulatory authorities, which lack adequate human capital to tackle the programs needed to improve rural access.

Other findings of the analysis relate to sector-specific issues:

- Telecommunications: more work is needed to improve access to basic services and reduce their cost, and new incentives need to be devised for rural telephony, such as establishing a universal access fund.
- Transport: there is a need to strengthen and increase the independence of the transport regulatory agencies, such as by drafting and enacting separate laws for subsectors.
- Electricity: the government needs to strengthen the power regulator’s capacity to handle issues arising from the current concession arrangements, and revise incentives for network expansion and rural electrification.

The Country Framework Report was completed in September 2002. However, a new government was elected at the time the activity was completed, and the environment was not deemed conducive to discussing some of the findings in a formal setting with a large audience. It was therefore agreed that the reports would be treated as working documents for internal use by the Government.

However, the PPIAF-funded Country Framework Report (in particular the recommendations derived from the sectoral analyses) served as a very useful source of information for the World Bank’s dialogue with the Government, and contributed to the design of two new World Bank projects: one on rural electrification and the other on telecommunications, both part of the larger Decentralized Infrastructure for Rural Transformation1 project that was approved by the World Bank Board of Directors on June 17, 2003. Among other things, the World Bank project led to: i) the enactment of a new regulatory framework for rural electrification; and ii) the establishment of a financing mechanism for sustainable rural electricity coverage expansion.

### Results of PPIAF's Activities for Bolivia's PPP Enabling Environment

<table>
<thead>
<tr>
<th>Category</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enabling environment reform</td>
<td></td>
</tr>
<tr>
<td>Analyses/assessments prepared</td>
<td>• Country Framework Report—Private Participation in Infrastructure: Bolivia’s Achievements and Challenges, September 2002</td>
</tr>
<tr>
<td>Capacity and awareness building</td>
<td></td>
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<tr>
<td>Workshops/seminars</td>
<td>• Workshops on rural electricity and on telecommunications and information and communications technology in secondary cities and rural areas, October 2000</td>
</tr>
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<td>Enabling environment reform</td>
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<td>Institutions created or strengthened</td>
<td>• The PPIAF-funded Country Framework Report served as a useful source of information for the World Bank’s dialogue with the Government of Bolivia, and contributed to the design of the rural electrification and telecommunications components of the World Bank project Decentralized Infrastructure for Rural Transformation, 2003</td>
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Technical Assistance for Bolivia’s Energy Sector

Bolivia has significant natural gas reserves, which could be turned into revenues for the state and for private companies. To realize these revenues, a comprehensive market development strategy needed to be undertaken.

PPIAF assistance was requested in 2002 as part of the second phase of a larger project, the Bolivia Natural Gas Market Development Study, which was financed mostly by the World Bank. The first stage consisted of consulting studies on the following aspects: fiscal, macro-economic, sector structure/regulation, external markets, and the Brazilian market (all financed by the World Bank). The second stage analyzed issues selected in the first stage in more depth, and also placed a stronger emphasis on the domestic market, at the request of the new authorities. PPIAF funding in particular concentrated on infrastructure-related issues (gas transmission and distribution) and fiscal aspects, in relation to the development of the domestic market and new export markets.

The resulting PPIAF-funded study reviewed issues and options relating to the development of the country’s considerable natural gas reserves. The aim was to support the development of the domestic natural gas market as well as natural gas export activities. The study consisted of two parts: i) an analysis of sectoral and institutional issues in the development of the domestic and Brazilian natural gas markets; and ii) an analysis of the incentives required to attract private investments in projects for external markets, and options for gas fiscal reforms and to address imbalances in royalty revenues.

The study had two main objectives: i) review prospects for developing internal and external gas markets and identify policies and reforms necessary for triggering market development; and ii) assess the potential economic, fiscal, social, and environmental impacts of market development and recommend policies and actions for maximizing the associated benefits for the country and for vulnerable groups.

One of the study’s main conclusions was that the potential windfall from exports of natural gas and associated liquids would boost economic growth and thus contribute to poverty reduction in Bolivia, while the domestic gas distribution program would generate important economic and social benefits. But to reap these gains, the government needed to address the challenges in the development of external and internal markets. In particular, it needed to:

- Review the mandates of public entities in the sector and the government’s potential shareholding role, and propose amendments to existing laws, as necessary, to assign roles to entities according to their comparative advantages.
- Prepare and effect policy and regulatory changes to allow the full development of external and internal gas markets—particularly relating to liquefied petroleum and gas pricing, the wellhead gas price for royalties, competition and open access, and regulatory harmonization with Brazil.
- Build social and political consensus, with professional independent support, around the export of liquefied natural gas, and move swiftly towards an intergovernmental agreement with the port country selected.
- Successfully renegotiate the gas supply agreement with Brazil to secure contracted volumes and facilitate further expansion.
- Redesign the program for expanding domestic distribution to minimize the subsidy required and address regulatory and policy obstacles to the program.
- Continue assessing the economics of the liquefied natural gas project and the status of competing supplies and, on the basis of that assessment, discuss with the consortium additional fiscal incentives that might be needed.
- Recruit support to design the detailed organization and mechanisms needed to improve tax collection capabilities and financial monitoring of sector companies.
• Revise the criteria for assigning investment and development funds to reduce the potentially growing revenue imbalances between departments.
• Further assess revenue management issues and consider creating a gas fund.
• Strengthen environmental monitoring and regulation, establish predictable mechanisms for social compensation, and introduce financially sustainable environmental monitoring mechanisms.

The findings of the study were incorporated into the World Bank Natural Gas Market Development Study project. It is expected that the findings should further assist the Bolivian government in fostering economic growth while stabilizing fiscal revenues in the long term, allowing greater public spending on social programs and thus contributing to poverty reduction. However, political sensitivities in the country at the time did not allow for continued support of the liquefied natural gas export project.

Results of PPIAF’s Activities in Bolivia's Energy Sector

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