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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington 25, D.C.

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AID-DLC/P-74
May 31, 1962

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Bolivia - Feasibility Studies

Attached for your review is a proposal for authorization of a loan in an amount not to exceed \$6,000,000 to the Government of Bolivia to assist in financing the costs of economic and engineering studies to determine the feasibility and to develop adequate data for the establishment of loan applications for specific development projects in Bolivia.

A telephone poll will be conducted by close of business on Friday, June 1, 1962 in order to secure for the Administrator the recommendations of the Development Loan Committee. It is requested that one copy of this Memorandum signed, as appropriate, be returned to this office.

CONCUR: _____

OBJECT: _____ REASON: _____

Walton C. Groce
Secretary
Development Loan Committee

ATTACHMENTS:
Summary and Recommendations
Project Analysis
Attachments 1-4

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BOLIVIA - FEASIBILITY STUDIES

AID-DLC/P-74
May 31, 1962

SUMMARY AND RECOMMENDATIONS

1. BORROWER: The Government of Bolivia.
2. AMOUNT: Up to \$6,000,000.
3. PURPOSE: To assist in financing the costs of economic and engineering studies to determine the feasibility and to develop adequate data for the establishment of loan applications for specific development projects in Bolivia.
4. PROJECT DESCRIPTION: The loan proceeds will be used to finance contracts with U.S. firms for economic and engineering feasibility studies including preliminary plans, specifications and cost estimates of specific projects in several economic and social fields including road construction, agriculture, industry, mining, petroleum and natural gas, power and social sectors of the economy.
5. EXIMBANK CLEARANCE: Not applicable.
6. VIEWS OF COUNTRY TEAM: Project strongly recommended by U.S. Embassy and USAID.
7. PROCUREMENT: Limited to foreign and local costs of services of U.S. consulting firms.
8. STATUTORY CRITERIA: The statutory criteria of the Foreign Assistance Act of 1961 have been fulfilled.
9. OTHER FINANCING: In view of the general nature of the project, no other sources of financing are available.
10. ISSUES:
 1. Scope of the consulting contracts (See Project Analysis).
 2. Nature of the proposed loan (See Project Analysis).
11. RECOMMENDATIONS:

Authorization of a loan not to exceed \$6 million to Government of Bolivia to assist in financing feasibility studies for various development projects in Bolivia.

 - a. Credit fee to be 3/4 of 1 percent per annum to be charged on the disbursed balance.
 - b. Repayment within 40 years from the date of the first disbursement including 10 years of grace period.

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- c. Payment of the credit fee and repayment of principal in United States Dollars.
- d. Procurement to be limited to U. S. consulting firms.
- e. Priority of projects and project selections to be agreed to by USAID/Bolivia.

PROJECT COMMITTEE:

Loan Officer: JZMirski
Desk Officer: AGordon
Lawyer : CGoldman
Engineer : KKohler

Drafted by: LA/CD
JZMirski:mrf

BOLIVIA - FEASIBILITY STUDIES

PROJECT ANALYSIS

I. THE BORROWER

The proposed A.I.D. loan of \$6,000,000 will be a general obligation of the Government of Bolivia (GOB).

II. THE PROJECT

A. Precise Definition of the Project

The loan funds will be used to assist in financing the costs of economic and engineering studies required to determine the feasibility and economic potential of various development projects in Bolivia and to develop adequate engineering, economic and financial data for the preparation of applications for external assistance from the U. S. and international lending agencies. The financing will cover foreign and local costs of the contracts to be awarded by GOB to U. S. consulting firms for economic and engineering studies of individual projects in the following sectors of economic activity.

1. Transportation and communications
2. Agriculture and rural development
3. Power
4. Mining (excluding prospecting)
5. Industry
6. Petroleum and natural gas
7. Social sectors

The total cost of the above studies represents an approximate amount arrived at on the basis of estimates of the National Planning Board of the GOB, recommendations of the Ad Hoc Committee of the Committee of Nine and USAID/Bolivia estimates.* The amount of \$6 million is to be considered as the present limit of available funds for feasibility studies, the cost of which will depend on their scope and coverage to be determined at a later date.

*The Ad Hoc Committee has recommended a commitment of \$8 million, but certain studies recommended by the Committee will be financed outside of the loan funds

B. Background

Financial and technical assistance of the U. S. Government and international lending agencies over the past decade, amounting to about \$25 million a year, has fallen short of launching Bolivia on the road to economic development. External assistance to Bolivia has helped to lay a foundation for economic improvement which permits the acceleration of development on a scale and at a speed called for by the existing economic needs of the country.

The past experience of the lending agencies has also indicated that there is an urgent need to provide professional services to help the Bolivians design programs and projects to be planned in sufficient detail to permit an evaluation of their economic and financial feasibility and establishment of reasonably firm cost estimates. Such preliminary technical and economic studies are required by A.I.D. and other lending agencies to encourage an economic use of funds and set up adequate safeguards against their misuse.

Both the Bolivians and the representatives of USAID and international lending agencies in Bolivia are in agreement on the necessity of such studies. In their report entitled "Measures Designed to Speed Economic Development in Bolivia Under the Alliance for Progress" of May, 1962, the Ad Hoc Committee of the Committee of Nine, strongly urged the aid agencies to consider the possibilities of establishing new mechanisms and procedures which can directly help Bolivia to prepare project specifications and speed execution of the projects set forth in Bolivia's 10-Year Plan. The Ad Hoc Committee estimates the need for an immediate commitment for the feasibility studies of the economic and social sectors of about \$8 million to enable the Bolivians to receive financial assistance of about \$80 million for economic and social development expenditures.

The loan request is strongly supported by the U. S. country team. In view of the A.I.D. role as the coordinator of the Alliance for Progress, it is considered imperative to finance this project from A.I.D. funds in order that a coordinated program of all lending agencies may be developed when sufficient information of the Bolivian projects and programs is available.

C. Plan for Execution of the Project

Determination of priorities and selection of specific projects will be made by GOB in agreement with USAID. Selection of the priority projects will be based upon the following criteria:

- (1) that they have been included, with high priority, in the GOB program of immediate action;
- (2) that they are appropriate for loan consideration on a project basis by the lending agencies.

Following the establishment of priorities within each sector of economic activities, the GOB will enter into contractual arrangement with a qualified U.S. consulting company or companies for their technical services in preparation of feasibility studies leading to development of data adequate to meet technical, economic and financial requirements for applications for external financing.

Scope of each contract will depend on the character of the project, availability of data, previous surveys and other factors. The contract for consulting services may initially be of a broad nature to be followed by subcontracts or order of work covering individual projects selected by GOB and agreed to by USAID/Bolivia.

Selection of consulting companies will be done by GOB from a prequalified list of U. S. firms proposed by GOB and approved by AID/W as to their scope, coverage, terms, period of investigation and costs.

It is contemplated that financing of foreign exchange and local components of the contracts will be effected through the USAID Controller unless the consulting firm requests other methods of disbursements.

It is proposed by GOB that a considerable number of local technical and other personnel be used in the preparation of the studies. To the extent that such personnel is hired by the U. S. consulting firms, and directly responsible to them, such cost of local hire will be reimbursable under the loan. Any Bolivian personnel on the GOB payroll assigned to the project studies will be under supervision of the U. S. consultants but will not be financed under the loan.

It is anticipated that consulting services to be financed under the proposed loan will be completed within three years from the date of the Loan Agreement, although in view of the undetermined nature of the specific projects, the exact timing of the full utilization of the loan funds cannot be definitely established.

D. Financial Plan

The proposed \$6 million loan will be used to cover all foreign exchange and local costs of the feasibility studies except that GOB may provide office space, translator and secretarial services and similar facilities as its contribution in kind.

The actual utilization of the loan funds will depend on the speed with which projects are selected by GOB and agreed to by USAID, but the full disbursement of the funds is expected by the end of 1965.

The project may be considered as a form of technical assistance. In view of Bolivia's limited debt service capacity, the terms proposed are

the most liberal under the A.I.D. criteria. It is assumed that future economic development of Bolivia, to which this project is a prerequisite, will enable GOB to repay the loan on schedule.

E. Sources of Procurement

Contracting for consulting services will be limited to U. S. consulting firms. The costs of services of local personnel directly employed by the U. S. firms will be eligible for financing under the loan.

III. ECONOMIC JUSTIFICATION AND FEASIBILITY

Bolivia's economy has suffered a long period of disruption and stagnation which has left the great bulk of people with an extremely low standard of living (average per capita income of about \$99 in the lowest in South America), the industries functioning at low capacity levels, and the Government without adequate resources to launch a development program by itself.

The internal conditions for development are nevertheless present: the Government is ready to press development under democratic institutions; basic reforms including agrarian reform have been undertaken; measures to stimulate private investments are considered; there are great potential resources - human and material - that can be tapped.

External assistance to Bolivia to date has been sizeable, amounting to \$25 million a year from U.S. Government's sources alone, but it has fallen short of Bolivia's development needs. Despite the U.S. aid of almost \$200 million in the period of 1954-1961, the average GNP per capita fell from a level of \$118 in 1950 to \$99 in 1959.

The 10-Year Economic and Social Development Plan of Bolivia for the decade 1962-1971 which has been presented to the OAS for evaluation, foresees an annual rate of growth of 8.3% per year and a raise of the average per capita income from \$99 in 1959 to \$165 in 1971. This plan will require about \$376 million in foreign development assistance over the decade varying from \$80 million in 1962 to only \$3 million by 1971. In order to qualify for such external financial assistance, Bolivia must prepare project specifications to meet requirements of the lending agencies and to prove out feasibility and priority of the projects. Unfortunately, the present "underdevelopment" of the Bolivian economy, supported by direct aid from the U.S. Government, precludes the financing of the required studies from internal sources. It is evident that to speed the process of study preparation, Bolivia should receive the help of outside engineering and economic consulting firms as well as financial assistance to cover the costs of the studies. The feasibility studies should include all sectors representing economic potential or required for the balanced economic growth in order to break through the past concentration of economic activities on the main product of the country, tin mining. It is reasonable to assume that feasibility studies will immediately be

followed by external financing of the projects. In addition, some budgetary support and direct technical assistance in the form of advisory personnel will probably be needed in the next few years.

If a successful development program is to be carried out, Bolivia will have to comply with the findings and recommendation of the Committee of Nine, namely:

- (1) to adopt appropriate fiscal, monetary, wage and price policies;
- (2) to improve the administration of the governmental machinery and attract Bolivian technicians back to the country;
- (3) to provide incentives for private enterprise;
- (4) to improve revenue collections especially with respect to customs and land taxes, and to change the tax structure;
- (5) to establish higher prices for certain public utilities, like rate for electricity, railroads, water, and oil for domestic consumption;
- (6) to strengthen credit institutions to encourage savings and provide development credit;
- (7) to prepare immediately an initial short-term investment program based on economic priorities.

In view of abundant unskilled manpower and large excess capacity of the existing industries, it appears that the magnitude of the development program proposed by Bolivia of about \$30 million in capital investment annually, would not disrupt the present monetary and balance of payments stability. However, efforts should be made to increase food supply and to control labor demand for higher wages in order to keep the inflationary pressure of wages and prices to a minimum.

IV. ISSUES

1. Coverage of the Consulting Contracts - GOB proposes to enter into contractual arrangement with U.S. consulting firms to include feasibility studies of specific projects, and general consulting services to GOB on a variety of matters. Such broad definition of services is not susceptible to fixed price service contracts which A.I.D. has required. It is therefore recommended that the contracts financed by A.I.D. under the proposed loan be subject to the following limitations:

- a. Fixed price or maximum limit to the cost of each project study and group of services rendered. This is necessary to control the availability and use of funds. General consulting services required by GOB may be allowed up to certain amount subject to

the approval of each individual case by USAID/Bolivia.

- b. Each contract or work order to be limited to studies of definite project or projects chosen on a priority basis by GOB and agreed to by USAID. Such surveys should be separately priced and should be allowed only if they are required to determine the individual projects. Surveys of general economic or administrative nature not leading to the establishment of individual projects with the objective of a loan application are to be excluded from financing under the proposed loan.
- c. Each project contract should be limited to preliminary studies required for applications for external financing: (1) Since the purpose of each study is to establish its economic and technical feasibility and justification, prior contracting for detailed engineering would be contrary to the purpose of such a study; (2) Once the feasibility is established the project may be financed by any of the U.S. or international lending agencies. Detailed engineering and cost of supervision are integral parts of the project costs and should be financed together with construction costs of the project.

2. Nature of the Proposed Loan - The proposed loans to Bolivia and Peru will be the first U.S. loans for feasibility studies prior to determination of the actual projects to be studied. In the opinion of the A.I.D. Latin America Bureau and such international experts as the Nine Wise Men, such studies are urgently needed. Since this proposal will establish a precedent, it may have widespread implications in future A.I.D. activities, particularly in Latin America. It is recommended that the loan financing be accepted as an appropriate procedure for financing of preinvestment studies.

ATTACHMENT 1

AMOUNTS OF AID COMMITTED TO BOLIVIA DURING 1961 BY INTERNATIONAL AGENCIES,
THE UNITED STATES GOVERNMENT AND OTHER COUNTRIES
(In millions of U.S. \$)

	U.S.A.	IDB	Germany	Others	Total	1961	1962	1963
COMIBOL (fixed investments and working capital)	7.2 ^{1/}	4.35	3.75	1.5 ^{4/}	10.8	→		
YPFB (fixed investments and explorations)	6.0 ^{2/}	-	-	-	6.0	→		
Investments in other directly productive and basic social overhead sectors (Power, Guabirá Sugar Mill, Irrigation Projects and others)	-	5.6	-	-	5.6	→		
(La Esperanza Sugar Mill, agricultural projects highway maintenance and construction, land settlement)	4.0 ^{3/}	-	-	-	4.0	→		
Studies and technical assistance	1.3	0.3	-	1.5 ^{5/}	3.1	→		
Budget support	8.8	-	-	-	8.8	→		
Credit to private companies	2.5	3.4	-	-	5.9	→		
Other (Public health services, and other services)	1.3	-	-	-	1.3	→		
Total	\$ 31.1	\$ 13.65	\$ 3.75	\$ 1.5	\$ 50.0			

1/ Up to April 1962, the United States made new contributions of working capital to COMIBOL.

2/ During 1962, a new \$ 4 million loan will be extended to the YPFB by the United States. Virtually complete utilization of a 1960 loan of \$ 2,700,000 has now been made.

3/ The \$ 1.5 million credit negotiated during 1960 for construction of the El Alto Airport has not yet been utilized.

4/ Argentina

5/ United Nations.

ATTACHMENT 2

A POSSIBLE FINANCIAL ASSISTANCE PROGRAM FOR BOLIVIA

(US \$ millions)

	Financial Aid Committed in 1961 (From Table 1)		Proposed Aid for the next Commitment Year		Duration of Outlays		
					1962	1963	1964
COMBOL	16.8		15.0	1. Operation COMBOL	→		
ECONOMIC AND SOCIAL DEVELOPMENT EXPENDITURES		PART OF 1962 NOT INCLUDED		2. Recommended Financial Arrangement			
1. Studies and aid in contracting technical personnel	1.3		8.0		→		
2. Credit to financial institutions	5.9		10.0		→		
3. Investments in productive sectors and basic overhead items	15.6		47.0		→		
4. Social projects	1.3		15.0		→		
	24.1		80.0				
TECHNICAL ASSISTANCE (From the United Nations and other sources)	1.8		2.0	3. Aid for Governmental Operations	→		
BUDGET SUPPORT	8.8		12.0		→		
GENERAL TOTAL	51.5		109.0	4. Total Foreign Aid			

ATTACHMENT 3

ESTIMATED CAPITAL REQUIREMENTS IN BOLIVIAN TEN-YEAR PLAN
(Thousand Dollars)

Year	Gross Domestic Savings	Deficit (-) or Surplus (+) in the Current Account of the Balance of Payments	Total Gross Savings or Gross Investments (1) + (2)	(1) as Percent of (3)	Amortization of the Foreign Debt	Total Foreign Capital Needs (5) + (2)	(1) as Percent of Gross Domestic Product
1958	19,000	- 32,500	51,500	36.9	-	-	5.4
1962	33,475	- 66,725	100,200	33.4	13,660	80,365	8.1
1963	48,451	- 56,449	104,900	46.2	18,769	75,213	10.8
1964	65,477	- 44,223	109,700	59.7	12,269	56,492	13.3
1965	84,852	- 29,898	114,700	73.9	11,323	41,221	15.8
1966	106,834	- 11,166	118,000	90.5	11,399	22,565	18.3
1967	121,539	- 10,211	131,800	92.3	19,738	29,549	19.4
1968	137,888	- 2,512	140,400	95.2	23,744	26,256	20.4
1969	156,047	+ 6,247	149,800	104.2	29,647	23,400	21.5
1970	175,778	+ 16,278	159,500	110.2	33,888	17,610	22.6
1971	197,757	+ 33,257	164,500	120.2	36,219	2,232	23.6
TOTAL	962-71:1,128,098	-165,402	1,293,500	87.2	210,656	376,058	

Source: Summary of the Ten-Year Plan of Bolivia.

BOLIVIAN GOVERNMENT
ESTIMATE BY NATIONAL PLANNING BOARD
OF COST OF PROJECT EXECUTION
 (Thousands of US \$)

SECTORS	Initial Period
<u>AGRICULTURE AND RURAL DEVELOPMENT</u>	
Agriculture and Livestock	2,893.5
Land Settlement	4,158.6
Irrigation works	352.1
National Plan of Rural Development	818.5
Total Agriculture and Rural Development	<u>8,222.7</u>
<u>TRANSPORTATION AND COMMUNICATIONS</u>	
	8,560.3
<u>POWER</u>	9,203.2
<u>MINING</u>	7,870.0
<u>PETROLEUM</u>	8,750.0
<u>INDUSTRY</u>	5,634.0
Total Economic Sectors	<u>48,240.2</u>
<u>SOCIAL SECTORS</u>	
Waterworks	2,334.0
Sewerage	381.0
Canalization	105.0
Paving	211.0
Urban Housing	4,000.0
Rural Housing	3,153.0
Education	1,916.3
Health	3,675.3
Total Social Sectors	<u>15,780.6</u>
Studies and project preparation	6,140.4
Administrative reinforcement (initial purchases and current expenditures)	5,655.3
<u>TOTAL:</u>	<u>75,816.5</u>

Source: Annex to the Memorandum of the Bolivian Government of March, 1962.



DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

UNITED STATES COORDINATOR
ALLIANCE FOR PROGRESS

AID LOAN No. 44 (511-L-010)
(Ref.: AID-DLC/P-74)

LOAN AUTHORIZATION (AMENDED)

Provided from: Alliance for Progress Funds
(Bolivia: Feasibility Studies)

Pursuant to the authority vested in the Deputy U. S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby amend the text of the Loan Authorization, dated June 8, 1962, to read as follows:

1. The first paragraph on page 1 is amended to read as follows:

"Pursuant to the authority vested in the Administrator of the Agency for International Development (hereinafter called the "A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, and after consultation with the Development Loan Committee, I hereby authorize the establishment of a loan pursuant to Chapter 2, Title I, the Development Loan Fund, to the Government of Bolivia of not to exceed Six Million Dollars (\$6,000,000) to assist in financing the foreign exchange and local currency costs of prefeasibility studies and feasibility studies of priority development projects in Bolivia, this loan to be subject to the following terms and conditions:"

2. Except as hereby amended, the Loan Authorization remains in full force and effect.

William D. Rogers

William D. Rogers
Deputy U.S. Coordinator
Alliance for Progress

June 25, 1965
Date

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington 25, D. C.

AID-DLC/P-74/A

LOAN AUTHORIZATION

Provided from: Development Loan Funds
(BOLIVIA - Feasibility Studies)

Pursuant to the authority vested in the Administrator of the Agency for International Development (hereinafter called the "A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, and after consultation with the Development Loan Committee, I hereby authorize the establishment of a loan pursuant to Chapter 2, Title I, the Development Loan Fund, to the Government of Bolivia of not to exceed Six Million Dollars (\$6,000,000) to assist in financing the foreign exchange and local currency costs of feasibility studies of priority development projects in Bolivia, this loan to be subject to the following terms and conditions:

1. Credit Fee and Terms of Repayment. The credit fee on this loan shall be three-quarters of one per cent ($3/4$ of 1%) per annum on the disbursed balance of the loan. The principal shall be repaid within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years.
2. Currency of Repayment. Provision shall be made for repayment of the loan and payment of the credit fee in United States Dollars.
3. Other Terms and Conditions:
 - (a) Equipment, materials and services financed under the loan shall be procured from the United States and Bolivia.
 - (b) The loan shall be subject to such other terms and conditions as the A.I.D. may deem advisable.

/s/ Fowler Hamilton
Administrator

June 8, 1962
Date

LOAN AUTHORIZATION

Provided from: Development Loan Funds
(BOLIVIA - Feasibility Studies)

Pursuant to the authority vested in the Administrator of the Agency for International Development (hereinafter called the "A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, and after consultation with the Development Loan Committee, I hereby authorize the establishment of a loan pursuant to Chapter 2, Title I, the Development Loan Fund, to the Government of Bolivia of not to exceed Six Million Dollars (\$6,000,000) to assist in financing the foreign exchange and local currency costs of feasibility studies of priority development projects in Bolivia, this loan to be subject to the following terms and conditions:

1. Credit Fee and Terms of Repayment. The credit fee on this loan shall be three-quarters of one percent ($3/4$ of 1%) per annum on the disbursed balance of the loan. The principal shall be repaid within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years.
2. Currency of Repayment. Provision shall be made for repayment of the loan and payment of the credit fee in United States Dollars.
3. Other Terms and Conditions:
 - (a) Equipment, materials and services financed under the Loan shall be procured from the United States and Bolivia.
 - (b) The loan shall be subject to such other terms and conditions as the A.I.D. may deem advisable.

Walter L. Lingle, Jr.
Deputy Administrator

Date