

PUBLIC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BOLIVIA**

**REHABILITATION OF THE CORPORTACIÓN MINERA DE BOLIVIA (COMIBOL)**

**(BO0061)**

**LOAN PROPOSAL**

**JULY, 1961**

## STATUS OF PROPOSED COMIBOL REHABILITATION PROGRAM

### I. Introduction

- 1.1 In response to an urgent request by the President of Bolivia, IDB has been preparing a program for the rehabilitation of the country's nationalized mining industry (COMIBOL). In November and December 1960, C.C. Huston and Associates, consultants to the IDB, carried out a technical evaluation of COMIBOL's four major mines. A summary of their appraisal forms Appendix 4 of the present report. At the same time, IDB officers evaluated the economic and financial situation of COMIBOL in the context of Bolivia's over-all economic situation (see CO/61/DP-1-Rev.).
- 1.2 In December 1960, the United States Government announced its willingness to make up to 10 million dollars available for the rehabilitation of COMIBOL, and the Government of the Federal Republic of Germany indicated its intention to contribute immediately 15 million marks (US\$3.75 million) for the same purpose.
- 1.3 While the IDB Mission was still in Bolivia, in December 1960, based on the aforementioned announcements on the part of the U.S. and German Governments, the basis was laid for possible tripartite financing of COMIBOL's rehabilitation. This projected cooperative financial effort was called Triangular Operation.
- 1.4 In January 1961, the Bolivian authorities concluded an agreement with the German firm of Salzgitter for detailed technical studies of the immediate needs of COMIBOL. The first phase of these studies was completed in March 1961.
- 1.5 In March and April 1961, technical discussions were held between representatives of Salzgitter, the U.S., the IDB and COMIBOL in order to reach an agreement concerning the size and method of execution of the Triangular Operation. As a result of these discussions, full agreement was reached on technical questions and on the probable over-all financial requirements for a three-year rehabilitation program. The estimate of financial requirements of the order of 47 million dollars represents the unanimous recommendation of the technical experts of C.C. Huston, Salzgitter, and the IDB. Representatives of the Bolivian Government and COMIBOL participated fully in these discussions and have expressed their agreement with the recommendations of the experts and with the financial program. The U.S. has not recently carried out independent technical studies, but has recognized these figures as a preliminary basis for executing the COMIBOL rehabilitation program. The details of the technical conclusions reached in these meetings are presented as Appendix 2 of this report.

- 1.6 The point has now been reached when high-level discussions on the methods of implementing the Triangular Operation are being carried out with the U.S. and West German Governments and when it is necessary for the IDB to make a decision in principle on the extent of its participation in the rehabilitation of COMIBOL.

## II. Summary of Financial Plan

- 2.1 The 3 year financial COMIBOL rehabilitation program, presented in detail in Appendix I, may be summarized as follows (in million dollars):

<u>Purpose</u>	<u>1st year</u>	<u>2nd year</u>	<u>3rd year</u>	<u>Total</u>
1. Search for new reserves	1.0	2.0	1.0	4.0
2. Metallurgical research	0.58	0.83	0.59	2.0
3. Rehabilitation and improvement of physical installations and facilities	9.5	8.5	4.0	22.0
4. Restocking of commissaries	2.0	1.0	-	3.0
5. Discharge of excess labor	2.0	1.0	-	3.0
6. Cash deficits during rehabilitation	8.0	3.0	-	11.0
7. Advisory groups	0.8	0.6	0.6	2.0
8. Total	23.88	16.93	6.19	47.0

- 2.2 These estimates are reasonably firm, with the possible exception of the likely cash deficits during the first 2 years of the program. For example, the recent 10 per cent increase in international tin prices, if maintained, would produce extra income of about 3 million dollars per year. Again, the estimate contemplates some reduction in outstanding short-term debts to foreign smelters and ore buyers, that might be renewed or renegotiated. At the same time, likely losses are a function of the success of the rehabilitation measures which cannot be forecast exactly. Above all, the success of the rehabilitation program will depend primarily on the readiness of all interested parties in Bolivia - Government, management, union leadership and labor - to support it. In any event, even under the most optimistic assumption, over-all financial requirements are unlikely to be less than 40 million dollars.

- 2.3 It should be stressed that this is an estimate, on the basis of the best technical information available thus far, of the financial requirements of a serious attempt to rehabilitate COMIBOL. It is very difficult to assess definitely at this moment the chances of full success of such rehabilitation and thus of COMIBOL's ability to become again profitable and to generate sufficient funds to assure repayment of investments of the size contemplated.

The two main factors of uncertainty are:

To what extent and how rapidly will the Bolivian Government and COMIBOL's management and labor carry out those essential measures designed to solve the major management and labor problems in the mines? The Mission to Bolivia believes that the success of the Triangular Operation depends basically on the discipline and sense of responsibility with which the miners accept the actions and changes involved in the rehabilitation plans, as well as the backing which the Bolivian Government will give COMIBOL in reinforcing the principle of authority. (See Appendix II, Annex 6).

How successful will the extraordinary exploration efforts be in discovering substantial new economic reserves?

Consequently, financing the rehabilitation of COMIBOL involves unusual risks that should be viewed in the light of the fact that the recovery of this enterprise constitutes, at present, the most important single element for the country's development and the maintenance of a manageable monetary, fiscal and balance of payments situation.

### III. Possible Sources of Financing

3.1 As stated in the previous section, the financial requirements for COMIBOL's 3 year rehabilitation program are estimated to be between 40 and 50 million dollars.

3.2 Up to this time, the following funds have been committed:

1) The United States Government has formally announced its intention to lend up to 10 million dollars for the rehabilitation of COMIBOL and has signed a loan contract with the Bolivian Government to make 3.5 million dollars of this amount immediately available.

2) Negotiations have been concluded between the U.S. and the Bolivian Government to permit the latter to use the equivalent of approximately 3 million dollars in counterpart funds to pay for the cost of relocating excess labor.

3) The Federal Republic of Germany has officially indicated its willingness to make immediately available to COMIBOL 15 million Marks (equivalent to 3.75 million dollars) for the purchase of spare parts and materials.

In other words, 16.75 million dollars can be considered as firmly committed at this time.

3.3 In addition, the United States Government has informed the IDB that it is prepared to examine jointly with the other participants of the Triangular Operation, problems of COMIBOL beyond those of immediate physical rehabilitation, including the financing of the current and anticipated cash deficits of COMIBOL and the restocking of the commissaries. For the commissaries 2-3 million dollars in surplus agricultural commodities might become available.

- 3.4 If the IDB decides to participate in this operation, it seems reasonable, in view of the magnitude of the undertaking, that it be prepared to lend up to 10 million dollars.
- 3.5 The balance, which might range from 10-20 million dollars, would have to be provided by the other two lenders. The Government of the Federal Republic of Germany has indicated to the Bolivian authorities that they might be willing to lend a substantial amount (10-15 million dollars) and that their 3.75 million credit constitutes their contribution to the first phase of the program.

As for the United States Government, President Kennedy in his letter to President Paz Estenssoro, made public on May 14, 1961, stated that the 3.5 million dollar loan already announced constitutes "the United States contribution to the first phase of a 'triangular' program for the rehabilitation of the Bolivian mining industry" and that in the discussions of the United States with the other two lenders "the total investment eventually to be required" will be considered.

May 19, 1961

DRAFT AGREEMENT

In view of the information submitted and in order to carry forward the negotiations referred to, the President of the Bank proposes the following agreement for adoption by the Board of Executive Directors:

"The Board of Executive Directors, having taken note of the status of the plans and negotiations for tripartite financing of the rehabilitation program of the Bolivian Mining Corporation (COMIBOL), agrees in principle:

- a) with the form in which this operation is being prepared, and
- b) with the participation of the IDB in the Triangular Operation."

TENTATIVE FINANCIAL PLAN FOR THE FIRST PHASE OF THE

COMIBOL REHABILITATION PROGRAM

This program has as its objective the economic rehabilitation of COMIBOL and if possible, an increase in its level of production. Its main features are:

- 1) to increase the ore reserves;
- 2) to improve the physical plant and the methods of mining, processing, and transporting of the minerals; and
- 3) the administrative, technical, financial and economic reorganization of COMIBOL.

In addition, the program contemplates financing the deficits that will persist until the normal economic and financial situation of the Corporation will have been re-established. At the same time, the program includes the necessary funds to dismiss excess labor and to re-establish the inventories of spare parts, materials and commissary supplies.

The estimates of probable financial requirements which are presented in the attached table represent the unanimous opinion of the technical experts of C.C. Huston and Associates, Salzgitter and the Inter-American Development Bank who have appraised the technical and financial situation of COMIBOL during recent months. Nevertheless, it is difficult to arrive at precise estimates of the profitability of COMIBOL as a whole, before the results of the recommended geological explorations are known.

From time to time, the Advisory Group to management which has been recommended, is to review the results of the rehabilitation program, and in the light of such a review might recommend changes in the structure and in the total amount of investments.

Three types of investments should be distinguished:

- a) emergency investments that would serve to arrest the increasing deterioration and avoid a possible paralyzation of the mines;
- b) basic investments, such as mining exploration and metallurgical investigations - the results would make it possible to determine what additional long-term investments could be economically justified; and
- c) long-term investments likely to be profitable on the basis of present information.

The first phase of rehabilitation covers three years. Estimates of the various types of investments are shown in the attached table.

Emergency investments are a major part of item 3 (Immediate Needs of Spare Parts and Materials), item 5 (Transport Equipment), item 6 (Commissary Supplies), and item 7 (Cost of Discharging about 7,500 excess workers).

Item 3 contemplates in the first year:

- 1) repairing existing equipment and machinery and their maintenance for one year;
- 2) replacing worn-out machinery; and
- 3) restocking the general warehouses with materials for one year.

Subsequently, only a portion of the spare part and material needs would be financed as part of the program. COMIBOL would cover each year an increasing proportion of these expenditures from its own funds.

Item 5 (Transport Equipment) contemplates the replacement of worn-out transport equipment and proper maintenance of the new equipment.

Item 6 (Commissary Supplies) contemplates the reconstitution of about a four months' stock of imported articles and a one month stock of domestically produced articles. It is presumed that sales of commissary articles below cost will be discontinued.

With respect to item 7 it is presumed that 5,000 excess workers will be discharged during the first year and 2,500 during the second year, at an average cost of \$400 per person.

The basic investments are New Explorations (item 1), Metallurgical Investigations (item 2) and part of the remuneration of the consultants (item 8).

Three types of exploration are contemplated: (item 1)

- a) within the existing mines of COMIBOL;
- b) within the area of COMIBOL's mining properties; and
- c) in Bolivia's mineral belt, where all the Corporation's mines are situated.

It is necessary to carry out an extraordinary exploration program in order to make up for the inadequate exploration efforts during the last few years. Moreover, it has been assumed that \$1.00 per ton of ore treated will be provided as an operating charge. This surcharge is to finance normal exploration and development inside the mines.



(Item 2) the metallurgical program consists in the modernization of the metallurgical processes currently used by COMIBOL and of an important program of investigation in order to increase tin recovery in the mills.

The remuneration of the technical consultants has been estimated at about 5% of the total cost of the program.

The long-term investments would be made in Catavi which has adequate proven reserves; and beginning in the second year in some of the smaller mines. It is clear that the investment plan would have to be changed from time to time, depending on the results of the explorations.

Finally, the deficits during the first two years of the rehabilitation program has been estimated on the following basis:

- 1) projections by C.C. Huston for the major mines;
- 2) projections for all of COMIBOL based on the foregoing;
- 3) the apparent cash deficit during the last few months, including the service on existing debts;
- 4) suspension of royalty payments to the Government; and
- 5) an estimate of the affect of the various rehabilitation measures on outgo and income.

ESTIMATED  
FINANCIAL REQUIREMENTS FOR THE FIRST THREE YEARS  
OF THE REHABILITATION PROGRAM

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(in million dollars)

<u>REQUIREMENTS</u>	<u>1st year</u>	<u>2nd year</u>	<u>3rd year</u>	<u>Total</u>
1) New exploration	1.00	2.00	1.00	4.00
2) Metallurgy				
a) Short-term	0.25	0.25	0.25	0.75
b) Longer-term	0.33	0.33	0.34	1.00
c) Foreign laboratory tests	-	0.25	-	0.25
3) Immediate needs in spare parts and materials				
a) Major mines	6.00	3.00	1.50	10.50
b) Smaller mines	1.50	1.00	0.50	3.00
4) Equipment				
a) Catavi	0.50	1.50	-	2.00
b) Smaller mines	-	1.50	1.00	2.50
5) Transportation - COMIBOL	1.50	1.50	1.00	4.00
6) Commissaries	2.00	1.00	-	3.00
7) Cost of discharging labor	2.00	1.00	-	3.00
8) Advisory Groups	0.80	0.60	0.60	2.00
9) Annual deficits during rehabilitation	8.00	3.00	-	11.00
TOTALS	23.88	16.93	6.19	47.00
	24.00	17.00	6.00	47.00