I. General comments

1. The OVE evaluation offers a comprehensive account of the shifting situation in the country over the period considered. It examines a time of great political and social turbulence, which saw three changes of administration in the three years evaluated: three Presidents, seven Bank Governors, and an equal number of vice ministers of Public Investment and External Financing (the government department that coordinates directly with the Bank), and numerous cabinet changes. Although the political volatility of this period is considered, however, the document’s general conclusion is that the Bank played a “reactive” role during this time. Here, Management notes that there have been two decidedly different stages: (a) a “transition stage” during the period of swift political and social change between 2003 and 2006, and (b) a period of political consolidation that began with the election of the present administration. Consequently, we do not consider it appropriate in assessing the Bank’s activities to apply the same parameters in such different situations.

2. Management stresses that by its nature the Bank, like all international agencies, does not act in a vacuum: all of its activity must be measured in the social and political context of the countries where it operates. In this respect, Management notes that in its efforts in support of the authorities, the Bank has shown flexibility and provided technical assistance during the successive political events that took place in Bolivia between 2004 and 2007. The Bank’s stance was to respond promptly, offering alternatives, and it was proactive in formulating solutions to existing needs, far more than “reacting” to them. This stance is consistent with the Paris Declaration on Alignment and Harmonization, which commits international cooperation agencies to base their activity on the mandate from the countries. As justification for this comment, we point to the following actions that the Bank has taken in the face of the frequent changes that have occurred.

- Beginning in October 2003, the Bank supported the priorities of the government of President Carlos Mesa, who assumed office in the midst of a major social emergency, with the resignation of President Sánchez de Lozada. To this end, an update of the Bank Strategy was prepared for the years 2004-2008 (the anticipated duration of the Mesa administration) and at the same time the portfolio was reoriented, specifically to deal with the social emergency.

- Social and political issues weakened the Mesa government during the first half of 2005, resulting in the serious attrition of the entire government apparatus, and culminating in the President's resignation in June of that year, during a severe institutional crisis. Those six months were also characterized by constant changes in the Cabinet (for example, three ministers of health in one month), and the post
of country governor to the Bank passed from the Minister of Development to the Minister of Finance.

- In June 2005 the President of the Supreme Court, Eduardo Rodrigues, became President with a transition mandate that required him to convene general elections within six months. The entire cabinet was changed, and once again there were two Bank governors in just those six months alone. That process culminated with the election of President Morales in December of that year.

- During this turbulent time, the Bank supported the country with a stream of visits by managers, technical staff, and even President Iglesias (in May and August 2005) and President Moreno (in October 2005). The Bank sought essentially to guarantee sound execution of the portfolio, to prepare a suitable operations program for this transition period, and to position itself within the existing national context.

- With the inauguration of President Morales in January 2006, and the prospect for greater stability in the country, the Bank took some important steps to fulfill the mandate of aligning the portfolio with the new government plan, harmonizing Bank activities with those of other cooperation agencies.

- With the Morales Administration, the Bank promptly initiated a series of missions designed to make contact with the new authorities in all sectors where the Bank was active, in order to establish dialogue and to understand their priorities. It must be recalled that the new government did not have a development plan at that time, and such a plan was not made public until more than six months after the President took office. Moreover, the National Development Plan (PND) raised a number of doubts in terms of its proposals. In the Policy Dialogue Paper presented to the government in December 2006, the Bank shared its technical views on various aspects of the proposals in the PND. During the first quarter, Bank missions included visits by all sector division chiefs, as well as managers and President Moreno himself. As a result, during the course of the year the portfolio was rationalized a second time, mechanisms were prepared for cancellations in connection with debt relief, the government received support in preparing its plan, and the above-mentioned policy dialogue on the 2008-2010 strategy was pursued. The year 2007 saw the granting of debt relief and the related cancellations, and completion of the strategy. Again in 2007, the Bank maintained dialogue with the country at the highest level, with visits by President Moreno and EVP Zelikov, managers, and division chiefs.

3. Management notes that in 2004 and in 2006, a portfolio rationalization was agreed with the Bolivian authorities, involving reformulation of some projects and a reallocation of resources. The purpose of the third rationalization was to cancel operations according to the guidelines set out in the MDRI (Multilateral Debt Relief Initiative), which required the country to repay US$75 million to the FSO.
4. The OVE evaluation refers to the portfolio rationalizations made on the basis of portfolio performance evaluations, without recognizing explicitly the underlying factors. The principal strategic objective of those processes was to improve development effectiveness through: (i) greater targeting of Bank contributions to sectors of priority to the government, where the Bank’s presence would add greater technical and financial value and generate more complementarity with the activities of other international cooperation agencies, and (ii) a reallocation of resources toward social emergency activities and areas where there was the greatest execution capacity and where resources were inadequate (as in the case of road transportation and the productive sector).

5. We understand that the country program evaluation’s value lies in the information and lessons it offers for preparation of the strategy for the subsequent period. Nevertheless, in this case, Management finds that the timing of the evaluation limits its usefulness: indeed, given the delays in preparing and distributing it, the OVE evaluation is being presented at the same time as the new strategy, which means that the lessons presented cannot be incorporated.

6. Nonetheless, Management agrees with OVE’s general recommendations to the effect that the Bank should provide funds to maintain an ongoing program of analytical and strategic inputs, as well as a technical team with the capacity to sustain sector dialogue in the country, given the rapid changes that the country is experiencing. In fact, these changes are already being made in the Bank's Country Office in Bolivia, and steps are being taken, jointly with the key sectors, to identify a program of studies and policy dialogue, which will begin in the coming months.

7. OVE makes a cogent observation in paragraph 1.4, when it says that “despite the merits of individual reforms, the past CPE found that Bolivia did not achieve broad-based growth or a more equitable society, and that despite the improvement in social indicators, the period also saw persistence in poverty and marginalization”. As well, paragraphs 3.9 to 3.11 analyze the metrics related to portfolio performance for the period under review. These observations highlight the need to ensure the structural conditions needed for specific reforms, and the management capacity to produce the desired effects for a majority of the population. Otherwise, as happened in Bolivia, reforms will proceed piecemeal or they will produce benefits for one segment of the population to the exclusion of the others, leading eventually to rejection of the entire reform process. While the metrics cited point to the Bank’s efforts to support better portfolio execution, amid constant change, it is evident that in that context, despite the Bank’s actions, public administration suffered from recurrent instability and problems during this period.
II. Comments on specific sectors

8. The sector comments, presented below, were prepared by the respective operating divisions

Internal Revenue and Customs

9. The OVE evaluation notes major differences in accomplishing institutional reform in the National Taxation Services ( Successful) and in Customs ( where the reform did not produce the desired results). With respect to Customs reform, the report correctly identifies the main reasons why the government was unable to achieve the desired results with the reform, such as: (i) constant turnover of Customs executives, and the failure of the Ministry of Finance to provide a budgetary allocation; (ii) the difficulties encountered by successive administrations in taking tough decisions to control smuggling; and (iii) the failure to distinguish clearly between tax collection (on which the International Monetary Fund insisted) and the public image of Customs in general as the institution responsible for controlling the illegal entry of merchandise. Management notes that these are all institutional and political factors, over which the Bank-financed program has no influence.

10. The evaluation also suggests that, in the case of the Customs reform, the Bank's action was characterized by “lack of involvement” ( page ii of the Executive Summary). Yet the main text of the evaluation ( paragraphs 4.18 to 4.20) says that the International Monetary Fund and the World Bank suspended their support for the Customs reform while the IDB undertook to pursue the dialogue with Customs. These two observations appear to be contradictory, and Management therefore requests that the Executive Summary be revised.

Transportation: highways

11. Management considers that the document overestimates the Bank's power of influence in the Bolivian context ( even accusing it of being “reactive”), and does not pay sufficient attention to the political and institutional difficulties surrounding the Bank's efforts in recent years. It would be useful to note and recognize the problems this generates: the senior policy agency in the transportation infrastructure sector was dissolved just like that, and it was a long time before there was an institution in place that could administer the system.

12. The document does not take account of the fact that, in this complex setting and in the spirit of contributing to an orderly institutional transition, the Bank helped with an updated diagnostic of the transportation sector and an action strategy for the sector, which was fully discussed with the government in early 2007 ( see Update of the diagnostic and action strategy for the transportation sector in Bolivia, prepared by the Bank’s technical staff and an expert, Germán Ospina).
13. The report mentions the need to evaluate, measure, and monitor the role of transportation projects in fostering growth, development, integration, and poverty reduction. Frankly speaking, we do not have the methodologies or tools to make such measurements, or to isolate the potential outcomes and analyze the specific impact of highway investments. It would perhaps be useful if the document were to mention the methodologies that could be used, and cite comparative experience of such uses in the projects of other multilateral agencies, or if it were to indicate lines of future research that the Bank could explore. Meanwhile, in my view our indicators for measuring road quality, operation and maintenance cost reductions, user time savings, and improvements in road safety are more than adequate.

14. OVE mentions a number of areas where the Bank's contribution and monitoring must be improved, particularly in the transportation sector (technical review of projects, sector planning, environmental practices, etc.). This is a good point. The Bank's new structure, specialization and greater sector response capacity should serve to enhance our value-added, and we must work to that end.

**Education**

15. When it comes to the education sector, although the evaluation period was from 2004 to 2007, the report focuses on the Education Reform Program as the reform process that lasted from 1994 to 2004. The figures used refer generally to that period, and the report overlooks the important coordination and dialogue that took place in 2004-2007 between the Bank, the Ministry of Education, and international cooperation agencies. It was those processes that determined the Bank's activity as a partner in the sector, in the context of the Paris Declaration. The evaluation also fails to recognize over-financing in the education sector in Bolivia during the period 2004-2007. This financing was organized, after 2004, in a shared financing arrangement (“the basket”) under a SWAp mechanism, and consisted of grants from Dutch, Danish, Swedish, Spanish, and European Union cooperation. Yet, the Ministry of Education has not had the management capacity to use these donated funds. The following table shows the low level of execution in the sector, demonstrating over-financing and the lack of absorption capacity:

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual execution</td>
<td>38,411</td>
<td>26,868</td>
<td>32,517</td>
</tr>
<tr>
<td>Balances available for disbursement</td>
<td>329,354</td>
<td>302,487</td>
<td>269,696</td>
</tr>
</tbody>
</table>

(figures in thousands of dollars)

16. The evaluation recognizes that the present administration has rejected the education reform of the previous decade, but it does not examine the current policy of using

---

1 It should be noted that, of the three PCRs completed during the evaluation period, only the draft PCR for 931/SF-BO is mentioned, and there is no reference, either in the text or in the bibliography, to the PCRs for the other two programs.
the government's own funds and donated funds in this sector. Management agrees with the recommendation that the Bank should continue to have a presence in the sector, and it should be noted that the Bank has launched a process of dialogue with the authorities on a potential technical support program.

17. The evaluation did not consider the results achieved by the Program for Strengthening Technical and Technological Training (BO-0197), which was suddenly terminated despite its success. In fact, the Bank awarded special recognition to this program for two consecutive years (2004 and 2005) because of the way it mainstreamed gender equality in access to education opportunities, through the design of public policies and a new institutional structure for technical and technological training, enhancing its ability to provide a quality education that is relevant to the labor market. This program marked a milestone in the complex field of vocational education, and its results are still being used in some sectors of the Bolivian education system.