BOLIVIA

THE BANK'S COUNTRY STRATEGY WITH BOLIVIA
(2004-2007)

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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AFPS</td>
<td>Administradoras de Fondos de Pensiones (pension fund managers)</td>
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<td>ATPDEA</td>
<td>Andean Trade Promotion &amp; Drug Eradication Act</td>
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<td>BCS</td>
<td>Bolivia Country Strategy</td>
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<td>BPRS</td>
<td>Bolivia Poverty Reduction Strategy</td>
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<td>CAF</td>
<td>Andean Development Corporation</td>
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<td>CFAA</td>
<td>Country Financial Accountability Assessment</td>
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<td>DPP</td>
<td>Planning and Budget Department</td>
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<td>EC</td>
<td>European Community</td>
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<td>FDI</td>
<td>foreign direct investment</td>
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<td>FSO</td>
<td>Fund for Special Operations</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
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<td>IDB</td>
<td>Inter-American Development Bank</td>
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<td>IIRSA</td>
<td>Initiative for South American Regional Infrastructure Integration</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>MERCOSUR</td>
<td>Southern Common Market</td>
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<td>MIF</td>
<td>Multilateral Investment Fund</td>
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<tr>
<td>PAIS</td>
<td>Project Alert Information System</td>
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<tr>
<td>PCR</td>
<td>project completion report</td>
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<tr>
<td>PRI</td>
<td>Private Sector Department</td>
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<td>RE1</td>
<td>Regional Operations Department 1</td>
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<td>SBPC</td>
<td>Bolivian Productivity and Competitiveness System</td>
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<td>SDS</td>
<td>Sustainable Development Department</td>
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<td>SEP</td>
<td>Social Entrepreneurship Program</td>
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<td>SIGMA</td>
<td>Integrated Management and Administration System</td>
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<td>SNI</td>
<td>Bolivian Internal Revenue Service</td>
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<td>SNIPPRE</td>
<td>National Public Investment and Preinvestment Finance System</td>
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<tr>
<td>STR</td>
<td>Simplified Tax Regime</td>
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<tr>
<td>UBN</td>
<td>unmet basic needs</td>
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<td>UDAPE</td>
<td>Economic Policy Analysis Unit</td>
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<tr>
<td>VIPFE</td>
<td>Office of the Deputy Minister for Public Investment and External Finance</td>
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<td>WB</td>
<td>World Bank</td>
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INTRODUCTION

Bolivia’s complicated political, economic, and social situation has made it difficult to shape a consensus around short-, medium-, and long-range strategy focuses to guide either domestic or external resource allocation. Economic turmoil, the coca eradication program, and the absence of mechanisms to contain the crisis’s impact on the most impoverished groups have taken a toll on personal income, especially for urban dwellers. This has provoked hard questions about the ability of government policies, and of the political system generally, to manage the crisis.

Escalating social confrontation and political fragmentation and the October 2003 governance crisis forced president Gonzalo Sánchez de Lozada out of office 14 months into his term. His successor Carlos Mesa came in with stronger popular backing but is arguably under even greater pressure: since this support is premised upon his administration delivering concrete results very quickly, failure to do so could trigger yet another escalation of conflict in the country. The events of last October have forced an acceleration of political reforms and decisions about the use of the nation’s gas reserves, which have been postponed or avoided in the past. There are two upcoming milestones for the country and for the Mesa administration: a binding referendum on gas exports slated for July 2004 and the convening of a Constituent Assembly in the first quarter of 2005. Were the Assembly to call a general election, which it could do, President Mesa’s term could be cut short. The government thus is working with a very short time horizon and a work agenda whose priorities are to restore governance and preserve social calm, to ensure that these landmark events unfold peacefully. They will shape Bolivian politics and the nation’s economy in the coming years: their outcomes have the potential to ease tensions, help the country through the crisis, and bolster confidence, or they could exacerbate current divides and unrest.

This backdrop was duly considered in deciding on Bank strategy focuses for 2004-2007. The country dialogue around the strategy has been interrupted frequently by episodes of political and social instability. In public policy discussions, examinations of lessons learned from two years of implementing the Bolivia Poverty Reduction Strategy (BPRS) have been eclipsed by concerns about navigating the economic and social crisis and setting in motion the consultation processes on the gas reserves and the Constituent Assembly. The political cycle is being shaped more by the above-mentioned milestone events than by the constitutional presidential term which would see elections held in 2007. As a result, the country strategy developed offers a framework for Bank action in the short and medium term, setting out new operations only for 2004 which are designed to contribute, in concert with other agencies, to the creation of a climate of economic and social stability. In identifying these operations the Bank has strived to balance short- and medium-range goals, with an emphasis on development of small and medium-sized enterprises, legal certainty of the main assets of the poor, and better equipping cities to organize and deliver essential public services. The alignment of the Bank’s current operations to the BPRS and the Millennium Development Goals is its chief asset to hold to a medium-range vision focused on social and economic goals.
As it crafted this strategy the Bank consulted a host of officials, civil society organizations and officers of Bolivian and international agencies that have been involved with the reforms. Annex IV provides an illustrative list of persons interviewed and discussion groups organized. Focus groups were set up as well, with support from the British cooperation agency, to learn how the IDB is perceived in Bolivia. A study produced with the World Bank ascertained cooperation agencies’ aid plans—a key input to be able to map out Bank activities. Workshops and studies provided a foundation for talks with civil society, donors, and the government about future transportation, financial sector, land titling, rural development, and water and sanitation initiatives. They also kindled important discussions about Bolivia’s fiscal sustainability and whether proceeding with a graduation process that would reduce the country’s access to concessional resources would be the right course.
I. BOLIVIA: OVERVIEW

A. Main trends

1.1 Considering the volatility that characterized Bolivia for most of the twentieth century, the democratic continuity and consistent direction of economic policy over the past 20 years are remarkable. Because the economic course was maintained and extensive reforms were implemented within a democratic order, Bolivia began to stand out in the region as a reform pioneer. It thus was able to attract foreign resources in the form of official development assistance and foreign direct investment which became pivotal to the country’s modernization strategy. Bolivia’s record, based on monetary and exchange rate discipline, financial reform, trade liberalization, deregulation and privatization of producing sectors, education reform, pension reform, and decentralization, set a near-unattainable standard for other countries in the region. This track record, together with low income levels and widespread poverty, made Bolivia eligible for the original and enhanced Heavily Indebted Poor Countries (HIPC) initiatives in 1998 and 2001, respectively, pursuant to which the external debt—considered one of the main constraints for the country’s sustained development—was reduced by over 50% in net present value.

1.2 Against this backdrop, it is no surprise that to many observers, not least Bolivians themselves, it seems a contradiction that all this effort has failed to achieve the hoped-for growth, macroeconomic stability and, above all, a reduction in the incidence of poverty. Between 1990 and 2001, total and per capita GDP grew at a year-on-year rate of 3.5% and 1.1%, respectively. These are relatively modest improvements compared with the experience of low-middle-income countries. This performance has not been sufficient to close the income gap with the rest of the world (Figure I). Indeed, the recession of the last four years has resulted in a

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1 Between 1952 and 1985, the average duration of an administration’s term was barely one and a half years. Of 21 presidents, 13 came to power by military means. In 1985 the country’s main political forces and the armed forces worked out an agreement that led to the return of democracy, the establishment of the political system in existence today, and the core principles of the economic program.

2 In the reform indexes developed by the IDB for the 1990s (see Eduardo Lora, 2002, and Lora and Panizza, 2002), Bolivia topped the list, ahead of Jamaica, the Dominican Republic, Peru, and Argentina.

3 In the regional context it is Bolivians who voice the strongest rejection of the reform programs (Lora and Panizza, 2002).
downward income trend, a situation characteristic of the years preceding the mid-1980s reforms.

1.3 In the macroeconomic context, the fiscal situation has deteriorated sharply despite public sector reforms, access to highly concessional credit, and the successful external debt relief program negotiated by the authorities and supported by the international financial community. The upward trend of the fiscal deficit, which reached 8.9% of GDP in 2002, shows that Bolivia’s fiscal situation is not sustainable, which makes it difficult to create a climate that stimulates economic growth, private investment, and job creation. The increase in debt service that has gone hand in hand with the widening of the fiscal deficit has eroded the short-term advantages of the HIPC Initiative. The growing deficit has been financed on nonconcessional terms, primarily through domestic borrowing, which has meant an increase in the internal debt of over 10 percentage points of GDP. As a result, the ratio of net present value domestic and external debt stock to GDP was 45% in 2002, much higher than anticipated under the enhanced HIPC Initiative in 2001 (34% of GDP).

1.4 In the area of poverty reduction, the country’s progress on nonmonetary indicators is undeniable: the coverage of social services has improved, resulting in a drop in the percentage of the population with unmet basic needs (UBNs) from 70.9% in 1992 to 58.6% in 2001. This trend was underpinned by improved living conditions in urban areas, where the UBN index fell from 53% in 1992 to 39% in 2001 (two million people). Conversely, the same policies have been less effective in alleviating the intensity and proliferation of poverty in rural areas. The fact that 90% of the rural population—2.8 million people—continue to live in poverty denotes the slim progress made with respect to the 94% index recorded in 1992. In terms of monetary indicators, the recession of the last five years has reversed the slim gains of the 1990s, especially in urban areas. Bolivia remains one of the poorest countries in the region, with levels of poverty and extreme poverty of 64.3% and 37.1%, respectively, in 2002.

1.5 The June 2002 elections redrew the country’s political map. The largest traditional parties, which in past elections garnered up to 90% of the vote, obtained barely 48% in 2002. The emergence of parties with an indigenous base as a significant political force was one of the most noteworthy outcomes of the 2002 elections. Movimiento al Socialismo [Movement Towards Socialism] (MAS), whose main representative is the indigenous leader of coca growers, came in second in the presidential elections with 20.94% of the vote and won 47 of the 150 congressional seats. In this context, it became obvious that perpetuating the system of government by coalition would not be the way to manage the country’s growing political diversity or settle differences with respect to key issues for Bolivia’s economic development, such as the use of its gas reserves. The governance crisis that erupted in October and forced elected president Gonzalo Sánchez de Lozada out of office one year into his term was set off by the government’s decision to launch a venture to export gas to the United States. The ensuing turmoil reflected the population’s disenchantment and strong mistrust of the State and the absence of a shared vision for the country’s development.
1.6 These events sum up the deep geographical, social, and productive divides that fracture Bolivian society and, in their persistence, limit Bolivians’ economic and social progress. Many of the drivers of these inequalities are not recent, but they have become more conspicuous in the last few years in pockets of social conflict in Bolivia and in a worsening of the dual nature of the country’s economy (Table I).

**Bridging these divides is the paramount task of Bolivian development.**

### Table I. The three divides in Bolivian development

**The geographical divide.** Virtually all studies on growth identify Bolivia’s complicated topography, combined with climate extremes and the country’s land-locked status, as one of the chief obstacles to its economic viability, particularly at the highest elevations. For one thing, these features make it more expensive to build and maintain road infrastructure and more difficult to integrate the various regions of Bolivia with each other and with the rest of the world. Bolivia’s production potential and capacity varies from region to region. Areas in the lowland plains and the valleys have GDP growth rates of 5% and 4%, respectively, and concentrate on agriculture and manufacturing, compared with 3% growth in the highlands with their predominantly mining economy. In addition, the plains region—particularly the Department of Santa Cruz—has become a population magnet, having recorded a 46% increase between 1992 and 2001, more than double the growth in the highlands. And yet, the percentage of the population with UBNs dropped 30% over the same period in the plains, while the improvement was only 5% in the highlands. Trends in the valleys are similar to the situation in the plains, although at more moderate levels and with much less urbanization. The coexistence of three countries in one, distinguished by their geographical and demographic features, is a central factor that continues to influence Bolivian development.

**The rural and ethnic divide.** Being a rural resident, a member of an indigenous group, and poor often go hand in hand in Bolivia. Unequal income distribution and unequal access to basic social services become more pronounced when ethnic origin and geographical location are added to the equation. In 2002, an estimated 68% of the urban population whose mother tongue was Quechua, Aymara, or Guarani lived in poverty, 40% in extreme poverty. These figures drop to 51% and 26%, respectively, for individuals whose mother tongue is Spanish. In rural areas, the poverty and extreme poverty rates for the indigenous and aboriginal population are 91% and 70%, respectively, compared to 75% and 41% for non-indigenous people.

**The production divide.** Bolivia’s “capitalization” policy resulted in the establishment of businesses capable of attracting foreign capital, thereby enabling their expansion and integration with the rest of the world. Between 1990 and 2002, average year-on-year growth in the economic sectors targeted by the capitalization program was 6.6% (gas, 6.8%; electricity, 5.6%; communications, 11.5%; financial institutions, 6.1%), and their share of GDP rose from 17% to 32%. By contrast, the rest of the economy grew 2.3%. In addition, sectors have emerged or gained strength that are capable of competing in international markets (soybeans), having overcome an adverse external and domestic climate. These two segments together generate 65% of GDP but account for only 4% of productive establishments and 8.7% of jobs. Most production units are at the other extreme: doing business largely on the domestic market, they account for 10 times more jobs (83% of total employment) but contribute only 26% of GDP. Unlike other countries that have pioneered reforms, reform in Bolivia did not lead to the development of activities capable of generating jobs or taking advantage of the new policy framework, in particular the opening of foreign markets, even under preferential terms. There were already indications in the mid-1990s that the growth and poverty reduction benefits of the adjustment program would be slow in coming in Bolivia. Geographic factors (extreme climates, topography, and landlocked status), together with the low educational level of the population, placed the country in a very weak position for capturing the benefits of a private-sector-led growth strategy.

### B. The environment

1.7 Narrowing these gulfs and bringing Bolivian society closer to the development goals set out in the Bolivia Poverty Reduction Strategy (BPRS) presupposes that the rate of improvement observed in the 1990s will not just be sustained but will speed up over the next two decades. Initial conditions that are an improvement over

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5 Morales and Sachs (1988) also highlight the ideological factor as far as the State’s role in development is concerned as one more divisive element in Bolivian society and yet another obstacle to overcome.
6 An excellent systematization can be found in Kaufmann et al. (2001). For a more detailed review, see Choque et al. (2000) and Urquiola et al. (1999).
7 Urquiola et al. (1999).
8 S. Morley (1994).
those existing 10 years ago are clearly a factor in favor of this objective. The
environment in which this task needs to be realized offers opportunities and risks
that will have to be managed. The discovery of vast gas reserves, the age structure
of the population, the urbanization process, and the migration of the population
towards the plains region are already altering the country’s economic, social, and
political physiognomy. As a result, society’s demands and needs for social services,
more and better economic opportunities, political participation, and good
governance are mounting, in a climate of political fragmentation and severe fiscal
strain, a weakened banking system, and a production sector facing operational and
financial obstacles to adjust to current circumstances.

1. Constraints and the risk of compounding them

1.8 Increased electoral volatility, greater fragmentation in the party structure, and
political uncertainty. Bolivia is in the throes of a political transition that could
occasion a heightening of social confrontation. President Carlos Mesa’s
administration is in a fast race to devise ways of defusing the high level of social
discontent. The discussion unfolding in the country along sharp regional lines is
being framed as a winners and losers proposition, particularly with regard to the gas
issue and the coca crop eradication program. The country will require great political
and democratic maturity for both the gas referendum and the Constituent Assembly
to succeed in reducing tension and uncertainty.

1.9 Shrinking of private capital flows. Capital inflows dropped by close to
10 percentage points of GDP upon the culmination of commitments related to the
capitalization of public enterprises and the drying up of capital flows to emerging
markets starting in 1998. These are arguably the external factors that have had the
greatest impact on Bolivia’s macroeconomic performance in the last four years.
While the resumption of such flows to pre-1998 levels is largely beyond the
purview of the Bolivian authorities, the political situation and the uncertainty
surrounding the agenda to address problems in the banking and corporate sectors
could well exacerbate the problem of the dearth of private external capital.

1.10 Loss of important sources of income and employment. The eradication of coca
creeps has become a source of social discord and economic slowdown by taking
about 3 percentage points of GDP out of the economy. The income of some
150,000 people directly or indirectly involved in this activity has been affected,
with the ensuing impoverishment of farmers who subsisted on coca growing and
have not found a comparable alternative crop. Sluggish job creation in the most
dynamic sectors of the economy and the recession in the job sectors are factors that
are turning the success of Bolivian society in attacking sources of State corruption
into a source of social tension and instability.

1.11 Low distributional impact of growth. Not only is Bolivia one of the poorest
countries in Latin America, but the distribution of wealth is also among the most
uneven. The poorest 20% of the urban population came away with 4% of aggregate
urban income; the wealthiest 20% kept 54%. Economic growth rates in the 1990s
and the slowdown beginning in 1999 reveal the scant impact of growth on equity. According to official figures,\(^9\) for every 1% increase in per capita income the poverty rate falls 0.6% in urban areas and 0.3% in rural areas. This elasticity rises to 0.94% for countries in the region\(^10\) and to 1% for the developing countries as a group.\(^11\) Inequity in Bolivia stems not only from the fact that income is concentrated in the wealthiest segment but also from pronounced inequality among the poorer sectors. This characteristic, which sets the problem of inequality in Bolivia apart in the Latin American context, is one of the main obstacles to overcome in order to increase the contribution of growth to poverty reduction.\(^12\)

1.12 \textit{Economic recession and financial sector vulnerability}. One of the most pressing concerns in Bolivia is the weakness of its producing sector and the related fragility of the financial system. The sudden stop in capital flows, the effects of weather events such as El Niño on agricultural production, the coca eradication program, the surge in contraband stemming from abrupt exchange rate devaluations in Brazil (1999) and Argentina (2001), and the drop in internal consumption all have affected businesses generally and, in particular, businesses focused on the domestic market and the Southern Common Market (MERCOSUR). A 42% cumulative depreciation in the exchange rate and 10% inflation have impaired the finances of many businesses that have traditionally operated with currency mismatches, making it difficult for them to meet their financial obligations. Since the banks are the main creditors, the portfolio arrears rate has soared from 6.3% to 20% between 1995 and 2002. The lack of modern legal instruments that would make it possible to wind up a business and reorganize transparently and expeditiously ends up undermining many firms’ ability to adapt to the new environment and perpetuates banks’ unwillingness to increase their exposure by expanding their loan portfolio.

1.13 \textit{Fiscal crisis}. Pension reform, the dollarization of expenditure lines, the economic recession, and the borrowing strategy of the last three years have laid the foundation for a chronically precarious fiscal situation. The deficit in the unfunded public pension system equaled 5 percentage points of GDP in 2002, three times the forecast when the reform was launched in 1996. The drop in revenue intake resulting from the economic slowdown and the domestic fuel price freeze have exacerbated the situation. In 2002, the deficit including and excluding pensions stood at 8.8% and 3.5% of GDP, respectively. This fiscal fragility heightens the financial vulnerability of the Bolivian economy and harms the investment climate.\(^13\)

\(^12\) Hernani (2003).
\(^13\) In the first four months of 2003, Standard & Poor’s and Moody’s downgraded Bolivia’s credit rating, reflecting the country’s financial and fiscal situation. This makes credit for both the public sector—voluntary markets—and private sector more expensive.
2. Opportunities and the risk of missing them

1.14 *Debt relief under the HIPC Initiative* has reduced Bolivia’s external public debt stock by 60%\(^{14}\) in net present value terms and enabled the release of external resources on the order of one percentage point of GDP over the next 15 years. Though this clearly will help, it is not nearly enough to offset the sudden drop in private capital flows. Stubborn high fiscal deficits have been eroding the initiative’s benefits.

1.15 *Gas.* Bolivia’s gas reserves, which have increased eleven-fold since 1999, are now the second largest in the region, after Venezuela, and the fifteenth largest in the world. Over the next 10 years, tapping this resource could mean as much as 50% more fiscal revenues for the decade or as little as 10% more: the scenarios reflect the enormous volatility depending on market, interest rate, and other trends. Moreover, the discovery of gas reserves raises the possibility of easing constraints on private capital flows and stimulating foreign direct investment. Preventing this hydrocarbon wealth from becoming a source of macroeconomic instability, government corruption, inequality, and poverty is a stiff challenge, especially when factors such as weak fiscal institutions, thin management capacity in the public sector, and the absence of mechanisms to chart the development of the regions that stand to benefit the most are factored into the equation. Few of the hydrocarbon-rich less developed countries have escaped that downside. To achieve its goal of reducing poverty and inequality, Bolivia must try to do so.

1.16 *Opportunities for international and regional integration.* Bolivia has preferential access to the largest developed markets through the Generalized System of Preferences (GSP) and additional special benefits as an incentive to eradicate drugs.\(^ {15}\) Along with these preferences granted by the industrialized countries, Bolivia has negotiated participation in other multilateral or bilateral arrangements. In the regional context, the Andean Community and MERCOSUR stand out in this regard. At the same time, fast growth of industrial production in emerging markets, particularly China, is generating significant demand for commodities and intermediate products, which provides opportunities for diversifying and promoting Bolivian exports. The full potential of those opportunities is not being tapped, however.\(^ {16}\) These advantages are not static. The accession of China to the World Trade Organization and the entry into force of the Free Trade Area of the Americas (FTAA) will create new opportunities for Bolivian export growth but will also erode the economic value of current preferences. Bolivia’s location in the middle of

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\(^{14}\) Includes additional voluntary relief from bilateral negotiations beyond HIPC.

\(^{15}\) The May 2002 Andean Trade Promotion and Drug Eradication Act (ATPDEA) extends Bolivia’s preferential access to the U.S. market until December 2006 and expands the product eligibility list to include industry segments with export and job-creation potential, such as textiles.

\(^{16}\) According to econometric analyses, Bolivia’s relations with the countries of East Asia reveal an untapped potential for trade. The greatest gulfs between potential and actual exports involve Japan, South Korea, and China. For example, China is an important partner: tin, antimony, leather, and copper sales to China account for 40%, 55%, 21%, and 97% of total exports of those products.
South America also gives it a strategic role to play as the nexus of regional infrastructure, so it stands to gain significantly from its participation in the Initiative for South American Regional Infrastructure Integration (IIRSA).

1.17 Urbanization. The urbanization process has helped reduce the territorial dispersion of Bolivia’s population. This, together with improved delivery of public, social, and economic services in the main cities,\(^{17}\) clearly contributed to the improvement in the UBN index recorded over the last decade. The congestion problems that sometimes ensue from an accelerated urbanization process like Bolivia’s (3.8% year-on-year growth between 1992 and 2001) have been attenuated, or perhaps deferred, thanks to an urbanization pattern that does not give primacy to any one city. The 3.3-million-strong urban population (64%) is spread among three large cities: La Paz (28%), Santa Cruz (22%), and Cochabamba (14%). If this trend’s contribution to poverty reduction and domestic market deepening is to be sustained and heightened, the cities will have to be ready to address the multiple demands that come with the shift from the farm to the city, in terms of social services, jobs, and equipping rural emigrants to successfully take their place in urban centers. Bolivia would need to prepare itself to prevent this process from urbanizing poverty, as has been the case in other developing countries.

1.18 The demographic transition. Bolivia has a high population growth rate and a fairly young population. Together with Honduras, Guatemala, and Nicaragua, it has one of the highest dependency rates in the region. Compared with the rest of Latin America, Bolivia is still at an early stage of the demographic shift, with 39% of its population below the age of 15. Nevertheless, after three decades of growth, the size of this segment is stabilizing, while the “prime-age” segment (15 to 65 years) is entering a stage of sustained growth. This opens a relatively long window of demographic opportunity for Bolivia, with over 100,000 workers entering the labor market each year. To seize this opportunity for purposes of poverty reduction, equity enhancement, and boosting savings, the productive sector’s job-creation capacity and the quality and reach of social services, in particular education, will have to be improved. This situation provides an opportunity to close the fiscal gap resulting from pension reform, by more effectively taxing the current productive generations.

\(^{17}\) World Bank (2000b).
II. MAIN DEVELOPMENT CHALLENGES

2.1 Managing the current opportunities and risks will be vital if Bolivia is to continue advancing toward its objectives of poverty reduction and social and economic welfare improvements to which its citizens aspire. A series of challenges will have to be taken up in the following four areas for this task to be successfully accomplished.

a. Bolster the State’s capacity as agent of development and rebuild credibility of political institutions: the governance challenge.

b. Pursue a development strategy that is compatible with macroeconomic stability and efficient use and development of natural resources: the sustainability challenge.

c. Boost economic growth and heighten the income impact of growth: the competitiveness challenge.

d. Create more and better avenues for development of an equitable, multicultural society: the social inclusion challenge.

A. Bolster the State’s capacity as agent of development and rebuild credibility of political institutions: the governance challenge

2.2 Modernizing the Bolivian State has been a far-reaching process encompassing the different branches of government, particularly central and subnational institutions. Thus far, the process has achieved only moderate gains. Among countries with a similar income level Bolivia stands out by its efforts to create avenues for participation and oversight and by the quality of its regulatory framework, but it trails in other areas that affect governance, such as the curbing of corruption, the rule of law, and government effectiveness (Figure III). These weaknesses of the Bolivian State constitute the main obstacles for achieving results in the economic, social, and political arenas alike. They also have proven to be the most complex to overcome because of the political system’s deeply rooted patrimonial practices.
2.3 Bolivia’s political stability has rested on a system of coalitions among a large number of parties represented in parliament. The public administration plays a strategic role in governance, having become a means to make political alliances viable that will allow a new government to move forward with a reform agenda.\textsuperscript{18} The operation of this patrimonial model is at odds with government-institutionalization initiatives in recent years to tackle corruption and improve government effectiveness, since these moves narrow the negotiating room available to maintain the cohesiveness of the coalition. In other words, public sector reforms have run up against the absence of political system reforms.

2.4 This coalition system has seriously debilitated the public service, creating enormous political obstacles to the creation of a professional civil service with the accumulated skills base and experience necessary for governance.\textsuperscript{19} Patronage extends to the municipal government level, thereby undermining the control and discipline mechanisms established by law\textsuperscript{20} to foster local accountability. All this takes away from the government’s effectiveness in policy formulation, administration, and implementation and in service delivery.

2.5 The Bolivian State’s patronage system has created a credibility crisis: the population has lost faith in key institutions such as the police, political parties, and the congress (below 40% trust level)\textsuperscript{21} and 76.1% of Bolivians believe that the level of corruption is as bad or worse under democracy as during the dictatorship. This sentiment is even more prevalent among the indigenous and aboriginal population. In international comparisons Bolivia comes out poorly for corruption perceptions—seventy-first in a sample of 80 countries in the 2002 World Economic Forum ranking, and eighty-ninth in a similar comparison by Transparency International.\textsuperscript{22} The judicial branch also has been caught up in this political dynamic: its great instability is the result of the alternation of parties in government administration, which has eroded public confidence in the State’s ability to enforce laws and contracts.

2.6 The population’s mistrust regarding the relationship between the public and private sectors has been stoked by events in Bolivian history. One such episode was political system manipulation to benefit three economic groups connected to tin production during the first decades of the last century.\textsuperscript{23} The business community’s perception that government policies favor private economic groups and are no longer neutral has increased since 1999, as reflected in World Economic Forum

\textsuperscript{18} See M. Villoria (2002).
\textsuperscript{19} See World Bank (1999).
\textsuperscript{20} World Bank (2000a) and Seligson (2003).
\textsuperscript{21} The Catholic Church emerges as by far the country’s most credible institution (68.6%), as reflected also in the 2000 National Dialogue working groups. Seligson (2003).
\textsuperscript{22} World Economic Forum (2003) and Transparency International (2003).
\textsuperscript{23} Morales and Sachs (1988).
The high systemic corruption level, together with the experience of State-private sector collusion, help explain why some 70% of the population rejects the privatization process. This became even more patent in 2000 with the privatization of water services in Cochabamba. That initiative, which was aborted in the wake of violent reactions and street protests, has become a frequently cited example of what may be a trend that will disappear neither quickly, nor easily.

Despite the fact that the indigenous population constitutes a majority (62% according to the 2001 census) and that the nation’s political constitution and laws recognize a series of collective rights of indigenous and aboriginal peoples and campesinos, the rights enshrined in law are not duly regulated and instruments to implement them are missing. In some cases there are no dissemination mechanisms to publicize the progress achieved. This generates a climate of mistrust on the part of indigenous people regarding the State’s political will to enforce the rights they have gained, and is a source of tension.

With the increased political fragmentation and polarization that resulted from the June 2002 elections, and despite signs that the coalition arrangement to ensure governance is wearing thin, tensions between the need to protect and deepen institutional and political reforms and the perpetuation of a patrimonial system have been exacerbated. This presents enormous challenges to the country to move forward with needed decentralization, institutionalization, justice administration, and fiscal reforms and to tackle social inclusion issues as crosscutting concerns.

Decentralization. With their growing responsibility as providers of regional and local services, the municipal and departmental governments have the potential to positively or negatively influence Bolivians’ perceptions of the State’s efficiency and transparency. It is therefore essential to enhance those governments’ ability to respond to the needs of their electorate. Local institutions are still weak despite the recognition of the importance of local administration and the magnitude of resources that have been targeted to strengthening this sphere, sector by sector (education, health, etc.) as well as cross-sectorally (financial administration). To a large extent, this stems from the incentive structure introduced by the rules governing decentralization (see Table II), which are preventing the process from becoming an effective driver of economic and local development. Decentralization should therefore be seen as a process in need of improvement, which offers significant potential for enhancing governance in Bolivia.

Strengthen initiatives to institutionalize government. The strategy of granting managerial and financial autonomy to segments of the State has been the avenue followed in Bolivia to break the patrimonial dynamic and pave the way for agencies capable of formulating and implementing policies and regulations. The Central Bank, superintendencies tasked with regulating private sector activity, and the

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24 E. Lora, U. Panizza, and M. Quispe (2003) supplement this indicator with other metrics that reveal the Bolivian population’s disenchantment with the reforms.

National Electoral Court have been successful experiences that have endured. Initiatives now in progress, addressing for instance the National Customs Service, the Internal Revenue Service, and the National Highway Administration, are taking aim at deep pockets of corruption. Since their implementation is the most likely to experience setbacks and face obstacles, they should come in for particular attention during this period of political turmoil to ensure that transparency in the management of public resources is not compromised.

<table>
<thead>
<tr>
<th>Table II. Decentralization challenges</th>
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<tbody>
<tr>
<td><strong>Allocation of responsibility</strong></td>
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<tr>
<td><strong>Resource transfer mechanisms</strong></td>
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<tr>
<td>Despite the efforts to guide the use of resources at the municipal level through financial incentives (compensation policy), it has been difficult to make local autonomy compatible with sector policies in areas such as productive infrastructure, health, and sanitation, or to reach agreements to ensure proper maintenance of investments. Bolivia’s cultural and geographical diversity and scattered population make it even more urgent to coordinate work of the various levels of government to achieve results, whether they are specific to local economic and social needs or pursue national goals (the Bolivia Poverty Reduction Strategy targets, for instance). Lastly, intergovernmental transfers financially support local action and demands for greater flows replace local initiatives to improve tax structures, reducing fiscal responsibility incentives and thereby affecting the sustainability of government action.</td>
</tr>
</tbody>
</table>

2.11 Finish and deepen reforms in the area of fiscal and financial transparency. One noteworthy reform move is the extension of the Sistema Integrado de Gestión y Administración [Integrated Management and Administration System] (SIGMA) to the municipalities and strengthening of budget institutions. A legal framework needs to be developed to support fiscal responsibility at the central, departmental, and municipal government levels. Related to this is the need to begin developing a framework for sound fiscal management of revenues yielded by the country’s gas reserves.

2.12 Administration of justice. Bolivia’s judicial branch has not been spared the problems created by continual changes in public officials, which breeds mistrust and a generalized aversion to the system. Since judicial decisions are not based on uniform, predictable criteria there are questions about the outcomes of court cases and the application of the law. Complainants and citizens who file suits face enormous delays. Some specific administrative problems are the lack of information and jurisprudence needed to properly conduct lawsuits, and poorly organized courts, proceedings, and support services. Accordingly, priority would need to be given to the following areas: (a) overhaul of procedural rules for actions brought under administrative law, in order to articulate the complexity of regulatory systems with judicial oversight of the workings of government; (b) adequate judicial staffing; (c) a human resources policy that takes into account the special
features of adjudicatory and administrative functions; (d) strengthening and improvement of the workings of commercial and noncommercial conciliation and arbitration centers operating in the country; and (e) improvement of the Judicial Council, whose work with justice branch agencies has not been well coordinated thus far.

2.13 **Consolidation of the legal framework for multicultural development.** The constitutional and collective rights in place for the advancement of Bolivia’s indigenous communities need to be deepened and regulations issued to address such strategic issues as decentralization, land and territory, legal systems, biodiversity and indigenous knowledge, support for supply chains specifically for the indigenous economy (quinoa and camelid husbandry), use of tropical forests, and mining in indigenous areas. The rapid expansion of indigenous and campesino movements in Bolivia is likely to propel inclusion processes now from a more institutional standpoint, especially in the context of a Constituent Assembly. This provides an opportunity to further the political, economic, and social integration of this segment of the population and increase its input into the decision-making process, thereby tackling an enduring source of conflict that is jeopardizing Bolivia’s sustainable development prospects.

B. **Pursue a development strategy that is compatible with macroeconomic stability and efficient use and development of natural resources: the sustainability challenge**

2.14 In addition to the development gaps enumerated in Table I there are macroeconomic gaps that point up the sustainability problems faced by the Bolivian economy (Table III). In terms of financing, investments for human development and Bolivia’s economic progress have been dependent on the availability of external resources (official development assistance, foreign direct investment, borrowing). The real economy has traditionally been driven by natural resources use and development (minerals, land, gas).

<table>
<thead>
<tr>
<th>Table III. Macroeconomic indicators</th>
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<tbody>
<tr>
<td>% of GDP</td>
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<td>-----------------------</td>
</tr>
<tr>
<td>Gross investment</td>
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<tr>
<td>Gross national savings</td>
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<tr>
<td>External savings</td>
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<tr>
<td>Current account w/ grants</td>
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<tr>
<td>Public sector balance</td>
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<tr>
<td>External financing</td>
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<tr>
<td>Public debt</td>
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<tr>
<td>Bank credit</td>
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<tr>
<td>Arrears rate (over total portfolio)</td>
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</table>

Source: IMF and Central Bank of Bolivia

2.15 The economy’s reliance on external savings shows up in its chronic current-account deficits, which averaged -5% of GDP between 1990 and 2002 and widened to -10% if transfers are excluded. Grants plus the concessional loan resources the country receives from multilateral agencies add up to 8 percentage points of annual GDP, or the equivalent of 50% of Bolivia’s total annual export sales. In the 1990s, foreign aid financed 60% of public investment, which represented 50% of the country’s total investment. Foreign direct investment (FDI), concentrated in sectors that were privatized during the second half of the 1990s, accounts for 90% of all private
investment in the country. Foreign agency financing for the banking sector grew steadily to some US$800 million in 1999 and fueled the expansion of bank credit, which increased by over 70% in that decade.

2.16 The chances of replicating this growth pattern are limited inasmuch as foreign firms by now have fulfilled all of their commitments under the capitalization program and prospects of FDI flows are centered on processes that will take time, in particular the development of gas markets and, as a related consideration, decisions on seaports to use for exports to North American markets. Just as important is the eventuality of a drop in the amount of concessional resources available to Bolivia; such funding has a decisive weight in the Bolivian economy, as the foregoing table shows.

2.17 All of this presents stiff challenges for the country’s development objectives. In a scenario of tepid growth, dwindling FDI flows, and a high fiscal deficit, Bolivia’s challenge in the medium and long term is to achieve balance in its fiscal accounts and rebuild investment levels enough to be able to attain the proposed poverty-reduction targets. The Bolivian economy is not in a strong position to manage a reduction in concessional external financing without public-sector solvency and investment levels being affected. The country’s debt-to-GDP ratio stands at 74%, which is high relative to other emerging economies. According to some analysts, to hold to this 74% ratio in a scenario of steadily diminishing access to concessional finance, Bolivia would need to generate a primary surplus of close to 1% of GDP, assuming 4% economic growth and market rates of 8%. If concessional financing maintains its current weight, the primary balance would trend toward a deficit of about -2% of GDP. Between 1990 and 1997 the Bolivian economy recorded a primary balance of -0.6% of GDP, with an average surplus of 1 percentage point of GDP for three of those eight years, indicating that the country was on track to be able to manage a shrinking of concessional flows. But in the last five years the trend turned around: between 1998 and 2002 the primary balance averaged –3.2% of GDP and, in 2002 alone, it was -6.1% of GDP. A comparison of this number with the primary balance levels needed for sustainability—even if the country were to continue to be eligible for very favorable financing terms and conditions—points up the magnitude of the fiscal challenge. The severe fiscal deterioration is primarily the result of the public pension system deficit, which swelled from -0.3% of GDP to -4.5% of GDP during the period reviewed, significantly exceeding initial estimates. This was the result of (i) relatively optimistic initial estimates regarding retirement age, exchange rate performance, and number of payees; (ii) political decisions during the implementation process that increased the cost of transition; and (iii) institutional weaknesses that have opened the door to fraud in the implementation of reforms.

26 Artana et al. (2003).
Compounding the problem of generating primary surpluses is the soaring domestic debt service, a consequence of mounting sales of dollar-denominated debt securities carrying 8% interest to the Administradoras de Fondos de Pensiones [pension fund managers] (AFPs). As a result, the domestic debt stock climbed to 18% of GDP, a 200% jump with respect to 1999. Debt service has returned to its pre-HIPC levels, eroding the positive budget impact of debt-reduction operations under the HIPC Initiative.

Bolivia’s fiscal straits will not be resolved with a strategy that looks only to the revenues the government stands to earn from pumping the nation’s gas reserves (see Table IV). The sustainability of the Bolivia Poverty Reduction Strategy (BPRS) requires a more comprehensive strategy package to: (a) address the resource drain caused by the pension reform’s transition cost; (b) improve tax collection efficiency; (c) develop and implement fiscal rules to make for sound public revenue and expenditure management; (d) improve management capacity, in particular efficiency in the process of decentralizing service delivery; (e) make more efficient use of external resources already secured, and (f) prepare an institutional framework to efficiently manage fiscal revenue intakes from gas sales, at the central and departmental government levels. Given the high deficit levels and the difficulties of slashing spending or substantially increasing revenues, another necessary feature of such a strategy package will be external borrowing options that keep the cost of financing low for the public sector during the adjustment period.

A second challenge to achieving macroeconomic stability and rekindling growth in Bolivia will be to keep the situation in the financial sector from erupting into a full-blown systemic crisis. Because of the connection of this problem with the state of the productive sector, a corporate restructuring plan is a necessary adjunct to action in the banking sphere. One advantage here is that since Bolivia overhauled its

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27 According to Pension Law 1732, securities issued by the National Treasury or the Central Bank of Bolivia will not be subject to the legal investment ceilings for AFP investments. AFPs are required to purchase up to US$180 million in government paper annually.

28 Excludes US$100 million in debt to the Central Bank.
financial sector early on, it now has a modern legal framework, provisioning and capital adequacy standards, and loan risk rating systems in line with international standards, as well as the human capital base necessary for sound oversight and implementation of these reforms. However, over the last three years the State has backtracked on some of these reforms; this has undermined the credibility of system agents by obscuring banks’ true capital strength and has diminished the independence of the system’s regulatory and supervisory functions. In addition, new legislation introduced (Bonosol Law and Executive Branch Organization Law [LOPE]) has eliminated the financial and administrative autonomy of regulators of the financial system and of the private pension system, leaving them more vulnerable to discretionary executive branch interventions.

2.21 In these circumstances it is essential that the oversight capacity of all the agencies involved in financial services regulation be strengthened and that they be able to continue performing their mandate in accordance with established international standards. To this end, their full insulation from politics must be restored, as was provided for in their institutionalization processes. Expeditious bank restructuring procedures also are needed.

2.22 Lastly, since Bolivia relies on its natural resources endowment and this reliance is bound to increase with the development of the gas sector and the forestry and wood industry, the environmental sustainability of the growth strategy will present a challenge. Close to 40% of GDP is directly connected to the use and development of renewable and nonrenewable natural resources. With the exception of the forestry subsector, which has made significant progress in the last few years, the fragmentary information available on the state of Bolivia’s environmental resources indicates negative trends as a consequence of the use of highly polluting production processes. Urbanization also is putting additional pressure on renewable natural resources in cities, since population growth in urban centers has not been matched by similar growth in sanitation, sewerage, and solid waste management infrastructure. In areas prone to hard rains, the lack of basic infrastructure also heightens the impact of natural disasters both on the environment and on the safety of the population.

2.23 Extreme climates, basic-infrastructure shortfalls, and urbanization pressures combined with deficient regulatory frameworks for natural resources management, weak enforcement capacity, absence of a good system for preventing and mitigating the impact of natural disasters, legal uncertainty regarding natural resources, and the proliferation of productive units operating outside the formal economy have degraded the environment in the form of desertification of 41% of Bolivia’s land surface, water pollution, and recurring emergencies triggered by extreme weather events. With regard to natural disaster risk management, while the country has

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29 The Bonosol Law also merged the Bonosol system with private pension funds. This measure, together with the requirement that AFPs purchase government securities, has altered the risk profile of the pension funds and could permanently impair the soundness of the private system.
taken important steps with the approval of the National Natural Disaster Prevention Program, political commitment to put it into action is weak.

2.24 Progress has been made in the legal and regulatory sphere, particularly with the adoption of the Environmental Development Law (1992) and the establishment of superintendencies regulating water, forest resources, and agriculture. However, the institutional framework and policies and standards related to ecological sustainability and natural resources management are nowhere near sufficient to prevent the proliferation of unsustainable and inefficient production practices (slash and burn, selective logging, inappropriate irrigation) or remedy persistent impediments to improvements in health and standard of living indicators. The multiple factors that have a bearing on the environment point up the limitations of a sector approach and the difficulties regulatory agencies face in enforcing the rules when factors that are promoting practices that undermine the sustainability of the Bolivian Poverty Reduction Strategy are not being duly managed.

C. Boost economic growth and heighten the income impact of growth: the competitiveness challenge

2.25 The main challenges for sustainable poverty reduction are to accelerate economic growth and move more of the population into productive activities. The task of rekindling economic growth in Bolivia has become more pressing and complex by virtue of the social effects of the prolonged economic recession and its impact on the financial health of businesses and banks. According to government calculations, poverty reduction requires economic growth rates in excess of 5%. This target has proved elusive, however, even when domestic and external conditions have been favorable. One case in point is a period comprising the better part of the 1990s, in which GDP growth remained on the order of 4%, slightly exceeding 5% only in 1991 and 1998.

2.26 Because of the dollarization of the economy, the population’s low income, and a small, fragmented, slow-growth domestic market, opportunities for reactivation and growth of GDP and employment will hinge on development of the export sector and growth in private investment. However, there has been scant improvement in the makeup or dynamism of the Bolivian export industry; if anything, the changes observed show the country to be more than ever a commodities exporter. Over the last few years, gas and soy products have emerged as the leading export commodities, displacing more traditional products such as tin and gold. This, combined with the weak performance of other agricultural products and manufacturing, has resulted in a continued concentration on commodity exports, in

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30 According to UDAPE calculations, the millennium goal of halving poverty would not be achieved even with 4.8% GDP growth.

31 Despite Bolivia’s leadership in the implementation of reforms, its growth rate is roughly the average of the region’s low-middle-income countries (3.5%). Of the 12 countries in this group, growth in the following countries exceeded Bolivia’s: El Salvador (4.9%), Guyana (4.8%), Belize (4.7%), the Dominican Republic (4.6%), and Guatemala (4.1%).
which a mere five products account for 60% of total sales: natural gas (18.9%), soy flour (16%), zinc (9.8%), gold (8.4%), and soybean oil (7.2%). In relative terms, Bolivia’s export record compares unfavorably with that of other countries. In the 1990s its external sales grew at an annual average of 4.8% compared with 7.2% for Latin America. Bolivia’s share of regional exports fell from 0.58% in 1990 to 0.35% in 1999. Exports contribute 17% of GDP, a five-point drop from 1990. In the last 20 years, per capita exports have grown only 12%, which in real terms represents a 25% decline. Even in a best-case scenario, gas exports will not be sufficient to bring Bolivia up to the level of other countries in the region or of countries at the same income level (Table V).

2.27 Bolivia needs to develop sectors capable of absorbing the influx of 100,000 workers onto the job market every year over the next decade. To meet this challenge the country’s productive sector will have to become more competitive. In international comparisons, Bolivia is among the least competitive countries, ranked 78 out of a sample of 85 countries. A broad range of factors is considered, from the macroeconomic climate to efficiency of infrastructure and credibility of government institutions. In the macroeconomic context, the benefits of relative exchange rate stability, especially in a setting of high dollarization of corporate debt, coexist with a trend, particularly evident in the 1990s, towards appreciation of the exchange rate, which is not good for tradable goods production. The Global Competitiveness Report (Table VI) also highlights the lag in microeconomic areas directly related to companies’ capacity to improve their processes. Other studies highlight obstacles to competitive development that are traceable to the institutional setting, primarily the channels for public-private interface and partnerships. The Bolivian State’s responsiveness and efficiency in promoting the economy’s productivity and competitiveness varies: some very modern arrangements in place are aggressively seeking a greater role for the private sector as a growth driver; others are inhibiting this and fostering, in the best of cases, a high level of informality (Table VII). A “business middle class” made up of flexible, innovative small and medium-sized enterprises that have made this sector an important contributor to jobs, GDP, and exports in other countries is virtually nonexistent in Bolivia. The Bolivian business sector is primarily comprised of vast numbers of owner-operated, family subsistence economic units with a high level of informality and low productivity and typically with scant access to financial resources,

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Table V. Exports and gas

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
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<tbody>
<tr>
<td>Natural gas development provides opportunities for increasing Bolivia’s exports.</td>
<td>In a best-case scenario, gas exports could bring in US$1.618 billion per year, six times the current figure. Assuming that other exports continue to perform as they have for the last two decades, per capita total exports would rise from US$150 in 2000 to US$230 in 2010, with gas accounting for 90% of the increase. In comparative terms, Bolivia would still trail other countries in the region by far. For example, Chile, which, like Bolivia, has a growth-limiting domestic market and high transportation costs because of its geographical location, has per capita exports of US$1,100. Latin America’s per capita exports average US$750.</td>
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</tbody>
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32 Exports of goods and services according to World Development Indicators.

33 Kaufmann et al (2002).
technology, or markets. These units are essentially a social safety net rather than a source of capital accumulation.

2.28 Because Bolivia’s production sector is uncompetitive it has been unable to capture the full advantages of preferential access to industrialized country markets, such as under the recently revamped Andean Trade Promotion and Drug Eradication Act (ATPDEA) and the Generalized System of Preferences. Bolivia’s declining share in total ATPDEA-eligible country exports—from 13.4% of the total in 1994 to 3.2% in 2001—attests to its diminishing ability to compete.\footnote{Bolivian exports under the Andean Trade Preference Act (ATPA) increased 6.7% on average annually between 1993 and 2001, well below the 19.5% growth in total exports from the other eligible countries (Colombia, Ecuador, and Peru).} In the regional context, competitiveness problems are heightened by the variability in the bilateral real exchange rate, which has suddenly put Bolivian products at a disadvantage in these markets, particularly MERCOSUR.

### Table VI. Bolivia’s competitive position (among 85 countries)

<table>
<thead>
<tr>
<th>Competitiveness index</th>
<th>Position</th>
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<tbody>
<tr>
<td><strong>Growth</strong></td>
<td>78</td>
</tr>
<tr>
<td>Technology</td>
<td>77</td>
</tr>
<tr>
<td>Public institutions</td>
<td>69</td>
</tr>
<tr>
<td>Macroeconomic environment</td>
<td>76</td>
</tr>
<tr>
<td><strong>Macroeconomic factors</strong></td>
<td>79</td>
</tr>
<tr>
<td>Operations and strategic planning</td>
<td>79</td>
</tr>
<tr>
<td>Quality of business climate</td>
<td>78</td>
</tr>
</tbody>
</table>

Source: Global Competitiveness Report 2002-2003

2.29 Bolivia’s competitiveness lag is also reflected in the absence, until very recently, of mechanisms to improve coordination among public sector agencies and between those institutions and the private sector, in order to identify and tackle roadblocks to competitiveness. The Productivity and Competitiveness Unit (UPC) of the Ministry of Economic Development and the Bolivian Productivity and Competitiveness System (SBPC) were not established until 2001. The UPC, as a focal point of the SBPC, has systematized the dialogue on competitiveness in the public and private
sectors at two levels: supply chains and business climate. The challenges that systematically come up in discussions on this topic are summarized below.\textsuperscript{35}

2.30 Make gas a driver of economic growth. While there is a growing awareness in Bolivia of the importance of improving export performance as a means of propelling growth, there also is a clear understanding of the risk inherent in focusing all this effort on the pumping and exportation of gas reserves and assuming that this will be enough to generate growth.\textsuperscript{36} The gas export venture is unquestionably Bolivia’s best chance at this time to significantly boost export revenues but, on its own, that will not be enough to put the country on a par with the rest of the region (Table III). Issues absent from the discussion agenda include how the gas revenues fit with a plan for the country’s sustainable development with equity and what Bolivia can learn from the positive and negative experiences of other countries that have a great abundance of a particular natural resource. A growth strategy for Bolivia should take up a discussion on how to capitalize on the comparative advantages offered by its gas reserves, how to minimize any adverse effects on the tradable goods sector, and how developing a good climate in the sector can generate positive externalities to attract investment to other productive areas.

2.31 Integration infrastructure. Out of a sample of eight countries in the region,\textsuperscript{37} Bolivia has the highest transportation costs. This sector faces a number of challenges when one compares the current situation—low road density and connectivity, difficult access and unserviceable roads, and maintenance problems—with what the country would need to connect its various regions and create links with the rest of the world; the strategic role of Bolivia in IIRSA; the urgent need to incorporate rural populations into the mainstream economy, and local demands arising from urban growth. This calls for serious discussion of transportation sector integration and functionality, highlighting priority investment, financing, and works maintenance needs, assignment of responsibility among levels of government, and development and consolidation of the institutional framework.\textsuperscript{38}

2.32 In tandem with the growth strategy, develop markets and pursue an international integration strategy. Necessary adjuncts to a growth blueprint premised on development of the private exporting sector are the trade negotiations agenda for the coming years and trade opportunities created by the expansion of emerging

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\textsuperscript{35} The 2000 National Dialogue and the forums and research sponsored by CAF, the World Bank, the IDB, and the Department for International Development (DFID) to further development of the SBCP provide a more detailed overview of current growth inhibitors in Bolivia.

\textsuperscript{36} As exploration activities have intensified, Bolivia’s gas reserves have increased eleven-fold since 1999 to 70 trillion cubic feet, ranking it among the 15 most gas-rich countries in the world and, in South America, trailing only Venezuela. The bulk of these reserves, 85%, are in the Department of Tarija in southern Bolivia.

\textsuperscript{37} ECLAC. Statistical Yearbook for Latin America and the Caribbean, 2000.

\textsuperscript{38} See World Bank (2002) and Inter-American Development Bank (2003) for a complete analysis of the state of the transportation sector and its challenges.
markets. With the exception of the programs providing preferential access to U.S. and European Union markets, Bolivia is facing the negotiation of second-generation trade agreements, most of which include “new” areas of negotiation such as services, investment, or intellectual property protection. This will mean creating fluid channels for public-private interface and partnerships, a dialogue with civil society—since there are objections to some agreements in some quarters, assessments to identify gainers and losers in the process, and the structural adjustments that opening up to large markets will entail for the economy. The process of implementing agreements is equally demanding, since it requires national regulatory reforms, efficient interagency coordination, and training for all public agents engaged in trade policy implementation.

2.33 Bank and corporate restructuring. The dollarization of liabilities and the domestic market recession are creating problems in all business segments, in particular those that made investments during the economic expansion. Now the microenterprise sector is facing a potential credit risk as a result of the devastating social impact that would ensue from a devaluation. In view of companies’ financial situation it will be imperative for Bolivia to supplement its bank-sector strengthening strategy by developing tools for effective, transparent corporate debt restructuring. The absence of such mechanisms perpetuates and exacerbates corporate and bank sector problems, thereby, in practice, constraining the relocation of resources in the economy. A reactivation process without this kind of tools runs the risk of being weak and short-lived.

2.34 Legal certainty and property rights. Consistently, the fact that Bolivia lacks clear ownership regimes for a wide range of factors (land, water, real property, intellectual property) stands out as an impediment to private sector growth and to successful economic mainstreaming of the poor. The cumbersome, expensive formalities required to obtain permits and legalize ownership are a barrier to operating in the formal sector of the economy; the result is parallel markets and transactions with no legal underpinnings. Productivity and equity are two of the areas that suffer. In the case of land, the lack of clear property title in rural areas limits people’s access to financing, fosters the spread of unproductive practices, and discourages investment. This limits the capacity of small rural producers to sell inputs to the manufacturing industry, thereby exacerbating the country’s dual economy. From an equity standpoint, the lack of title to urban or rural land makes it difficult for the poorest segments of the population, primarily indigenous groups and women, to borrow and to access the real estate market. Clarifying property rights should go hand in hand with the consolidation and maintenance of a property registry system that is connected to rural and urban cadastres, in order to afford legal certainty of those rights. In the case of water resources, while headway has been made in expanding small irrigation infrastructure, progress towards a modern legal and institutional structure that will allow for efficient allocation of these resources has been slower.

39 Producers of cotton, quinoa, wool fibers, leather, and grapes, for instance. PAC (2001).
2.35 *Make pro-job growth objectives consistent with labor market regulation.* In addition to human capital accumulation policies, the growth of the working-age population requires a regulatory framework that will make it easier to incorporate this resource into the productive process. In general, investors have a very poor perception of labor regulations and of the technical skills set of workers and employees, to the point that, when making foreign direct investments, investors gave little weight to the labor dimension. Accordingly, most FDI has gone into capital-intensive sectors. An analysis of labor market strictures, an area in which Bolivia heads the list with the most rigid market, provides further confirmation of this situation.

2.36 *Strengthen human capital formation.* Together with the current education reforms which are addressing the basic and more generic level of academic training, Bolivia’s technical-vocational training system needs to be completely revamped in the near term to equip it for development of the country’s productivity and competitiveness and the growth in labor supply. This will require the design of a stock of education providers with a long-range horizon, offering flexible programs targeted on groups that are growing (young first-time job seekers, the self-employed, women heads of household, etc.) and with strong public-private coordination and partnerships.

2.37 *Eliminate incentives to private sector informalization.* The business climate in Bolivia provides some incentive for firms to operate outside the mainstream economy. Bureaucratic hurdles, the high cost of starting and registering a business, and the tax laws—such as the transaction tax—increase costs for businesses and prompt many of them to operate informally. Furthermore, in the case of incentives to operate in the formal sector, such as import duty drawbacks, it takes on average 116 days to receive the benefits; for many businesses this is too long to wait, particularly when sales revenues are on the decline. For its part, the Simplified Tax Regime, by limiting customs oversight and checks for the retail trade, creates an incentive for contraband.

### D. Improve avenues for development of an equitable, multicultural society: the social inclusion imperative

2.38 Though Bolivia has posted impressive gains in social services delivery, with

<table>
<thead>
<tr>
<th>Table VIII. Bolivia, Social indicators: the rural/urban gulf</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Extreme poverty rate (2000)</td>
</tr>
<tr>
<td>% of 15-and-up population with 8 years of schooling completed (2001)</td>
</tr>
<tr>
<td>% institutional deliveries (2001)</td>
</tr>
<tr>
<td>% dwellings with sewer service</td>
</tr>
<tr>
<td>% dwellings with electricity</td>
</tr>
</tbody>
</table>

Source: INE, UDAPE

40 According to the Andean Competitiveness Development and the Andean Development Co Lora (2002).
42 The high levels of informality in some links of the chain (forestry, slaughterhouses, and tanneries) create problems for the generation of VAT credits at transactions along the rest of the chain (even in
43 One unwanted effect of the simplified regime it makes it easier for small firms to register but does not allow them to issue invoices with goods and services tax credits. As a result, larger firms reporting under the General Regime refuse to buy from these small businesses.
improvements in education, health, sanitation, and housing indicators, the fruits of social policy have not been shared equally across the population: the country’s poorest have benefited the least. Between 1992 and 2001 the standard of living of the top income quintile—using unmet basic needs (UBNs) as the measure—rose 39%, whereas the bottom quintile saw a mere 1.39% improvement. One striking feature was the disparate performance of monetary and nonmonetary indicators of poverty in urban and rural parts of the country, which has translated into sharp geographic divides (Table VIII). Bolivia’s cities were able to bring about a 3.3% year-on-year decline in the UBN index; in rural areas the index edged down just 0.5%. Accordingly, the 2001 rural UBN index of 90.8% was 2.3 times the urban figure (39%), up from the 1992 ratio of 1.7. The rural/urban disparity is evident in all the country’s altitudinal ecoregions but is most pronounced in provinces in the Altiplano highlands. That region has had the least success in raising living standards: in two thirds of its municipalities the UBN index has worsened. At the other end of the scale is the altitudinal region of the plains, where three quarters of municipalities reported UBN improvements, sometimes by as much as 60%. Between those two extremes is the valley region, which has fared considerably better than the highland plateaus: here, one half of municipalities have seen a decline in UBN levels, sometimes by more than 60%. Eighteen (60%) of the 30 municipalities in which poverty has increased the most are located in the highlands; that altitudinal region is home to just two (0.7%) of the 30 municipalities that experienced the sharpest UBN improvements.44

2.39 Education is one sector for which there are relatively current, reliable data. Though on a national scale there have been significant improvements, the urban-rural gulf is still very much in evidence. The educational attainment of the new urban generations is steadily approximating the levels of countries like Argentina and Uruguay (whose people have the highest educational attainment in the region), but rural dwellers—even the younger generations—are at least five years behind. On average, city-dwelling children complete 10 to 11 years of school; their rural counterparts average 6 to 7 years. Mirroring this urban-rural education divide is the difference in academic attainment of (self-identified) indigenous people and the non-indigenous population: according to 2001 census findings, Quechua and Aymara people over 19 had finished 6.6 years of school compared to 9.7 years for non-indigenous respondents.

2.40 A look at monetary indicators of poverty reveals once again the role that geography and ethnicity play in standards of living. Rural poverty rates are between 1.6 and 1.8 times higher than urban rates for the non-indigenous and indigenous population, respectively (Table IX). However, indigenous groups have less access to basic social services such as education and, in particular, health care.

<table>
<thead>
<tr>
<th>Table IX: Poverty indicators by ethnicity1 and geographic area</th>
<th>Total</th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty rate2 % (1999-2001)</td>
<td>63.0%</td>
<td>51.3%</td>
<td>84.5%</td>
</tr>
<tr>
<td><strong>Non-indigenous</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate</td>
<td>47.1%</td>
<td>41.3%</td>
<td>72.0%</td>
</tr>
<tr>
<td>Gap</td>
<td>22.4%</td>
<td>17.0%</td>
<td>45.9%</td>
</tr>
<tr>
<td>Severity</td>
<td>14.2%</td>
<td>9.4%</td>
<td>34.7%</td>
</tr>
<tr>
<td><strong>Indigenous</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate</td>
<td>68.5%</td>
<td>52.6%</td>
<td>85.4%</td>
</tr>
<tr>
<td>Gap</td>
<td>42.1%</td>
<td>23.6%</td>
<td>61.8%</td>
</tr>
<tr>
<td>Severity</td>
<td>31.6%</td>
<td>13.9%</td>
<td>50.4%</td>
</tr>
</tbody>
</table>

1 Self-identified.
2 1999-2001 average, from periodic household surveys.
Source: W. Hernani and Social Information Service, IDB.

44 For a more detailed analysis see Maceira (2003).
where issues of cultural relevance are a major access barrier. As for the gender
dimension, the poverty rate is higher for women than for men in cities and rural
parts of Bolivia alike, and women-headed households typically reflect this situation.
Where gender-based inequities combine with ethnic condition the disparities are
compounded, especially where maternal and child health is concerned.

2.41 Because of the multiple dimensions of poverty in Bolivia it is no easy task to come
up with public policies to improve living conditions in the country. Building a more
inclusive society in such a culturally diverse nation involves questions of access to
social services and their cultural relevance and also, as noted earlier, the design of
institutions and laws to address strategic issues that go into forging a multicultural
society.

2.42 One of the difficulties in combating poverty in Bolivia is that persons living in
poverty are dispersed across the country. The ranks of the urban and rural poor are
not that different in size; some indigenous people live in towns and cities, others in
the countryside. Rural areas pose a special challenge because their population is
scattered and difficult to reach and, in some locations, the economic base affords
scant prospects of sustainability. As the tide of migration to the cities has swelled
the new arrivals have occupied land and human settlements have sprung up. To
accommodate this urbanization process an average of 35,000 city dwellings have
been built every year for the last 25 years. Between 1992 and 2001 the urban
housing stock increased 52%; many of these homes are of substandard construction,
are in violation of urban building codes, and have no utility services. One million of
Bolivia’s 2.3 million housing units are in its capital cities and the city of El Alto;\(^{45}\)
the occupants of 400,000 of these dwellings do not have recognized property rights
or deeds or perfect title plans. Most units whose occupants are in that situation are
in some way substandard;\(^{46}\) the majority of these households fall into the bottom
and second income quintiles.

2.43 The three most pressing urban housing problems are: (i) informality and ownership
rights; (ii) the need to develop financial and real estate markets and enable the
poor—armed with full property rights—to access those markets; and (iii) priority
attention to unregulated settlements and that issue's tie-in with urban land
availability. Table X gives an overview of salient improvements achieved and
continuing challenges in Bolivia’s housing, education, health, and water and
sanitation sectors.

2.44 The issue of the organization of core services and the ability to respond to
geographically or ethnically specific demands is closely connected to the
decentralization program. One of decentralization’s central aims was precisely to
help remedy equity problems in Bolivia, with its varied geography and cultural
mosaic. However, because of uneven progress on the centerpieces of the

\(^{45}\) From preliminary INE 2001 census findings.

\(^{46}\) Pilot Urban Property Ownership Legalization Project, Ministry of Housing and Basic Services.
decentralization process—allocation of responsibility and of resources, management capacity, coordination, and sustainability (Table II)—it has been difficult for the reforms to achieve meaningful efficiency or equity improvements in basic services delivery, especially in the most marginalized regions. The emphasis in the decentralization program has been to pass on funds to subnational governments so they can take on the responsibilities being downloaded to them. In 2001 the government refined policies for resource allocation to municipalities to mandate distributional equity; these rules affect HIPC resources and other concessional finance flows. Though this is a step in the right direction to redress inequities in the previous distribution formula, available evidence suggests that unless such funding is accompanied by better local management there will be little appreciable improvement in quality of life of the most impoverished segments of Bolivian society.\footnote{Maceira (2003).}
### Table X. Sector-specific achievements and challenges

<table>
<thead>
<tr>
<th>Sector</th>
<th>Achievements</th>
<th>Challenges</th>
</tr>
</thead>
</table>
| **Education**   | - Near-universal (95%) primary school enrollment.  
- Narrowing of gender gap and geographical disparities.  
- Cross-cultural and bilingual education an integral part of the education system.  
- A national program (PRE) with clear targets.  
- Capacity built to coordinate donor efforts around the program targets.  
- Consensus achieved on a technical and technology training program now being developed. | - Continue to deliver on fiscal commitments, primarily in regard to current expenditure. This would put Bolivia on track to attain the Millennium Goals for education over the next decade.  
- Address instructional-quality problems.  
- Reduce persistent inequities between geographic areas.  
- Coordinate the work of different levels of government in pursuit of the targets.  
- Strengthen the Education Ministry.  
- Improve secondary school enrollment and quality. Gender equity.  
- Reverse deterioration in Education Ministry observed since mid-2002.  
- Design a highly competitive national technical and technology education system.  
- Devise incentives to involve the private sector in technical and technology training. |
| **Health**      | - Health goals clearly defined. Health sector reform emphasizing reductions in maternal and child mortality and prevention of communicable diseases (epidemiological shield).  
- Major improvement in health indicators. Bolivia’s 4.5% decline in child mortality rates in the 1990s ranks it among the five countries in the region posting the greatest improvement on that front. The percentage of institutional deliveries more than doubled, from 25% of the total in 1994 to 54% in 2001.  
- Enhanced health services equity, measured by institutional deliveries and neonatal care.  
- Chagas infection rate reduced.  
- Health insurance programs (SMN, SBS, SUMI) and epidemiological shield implemented to address Bolivia’s most serious health challenges (mother and child health, communicable diseases).  
- Considerable progress in decentralizing health services delivery. | - Bolivia’s health indicators are still among the region’s worst.  
- There still are coverage and quality disparities between the different income quintiles. Coverage is particularly low for rural and indigenous populations, both from the demand side (economic and ethno-cultural barriers) and the supply side (remote areas without the requisite infrastructure or human resources). Multicultural health services need to be a piece of the reform.  
- There is no continuity in the reform implementation plans. Institution-strengthening efforts bear little fruit when turnover is so high in the implementing teams.  
- Two decentralization challenges in this sector are the need to explicitly apportion responsibilities between levels of government and adopt performance monitoring and reporting mechanisms.  
- Unfinished social security reform. |
| **Water and sanitation** | - Bolivia no longer ranks lowest in the region for population with water and sewer service.  
- Substantial improvements in rural areas.  
- Financial support, this sector being the second-largest recipient of public investment. | - Sustainability of investments.  
- Extend coverage to rural areas.  
- Improve service in population magnets (Santa Cruz and Cochabamba).  
- Improve geographic equity, with special attention to rural areas.  
- Mechanisms to develop water and sanitation systems in mid-sized cities and improve maintenance.  
- Coordinate the work of different levels of government—an ongoing challenge. |
| **Housing**     | - Consensus achieved on a national housing policy.  
- Progress made on housing legislation reform; housing finance system reconfigured.  
- Mechanisms developed to assist families/communities unable to access the financial market. | - Better equip the sector to serve the needs of growing populations: in-migration and urbanization.  
- Reduce transaction costs associated with securing property rights (implementation of Law Governing Regularization of Urban Property Rights).  
- Finish writing municipal cadastre regulations.  
- Bring in secured transactions legislation (new legislation governing real security).  
- Updated information systems to help contain the proliferation of unregulated housing units. |

Source: IDB Sector Notes and World Bank Policy Notes.

### E. The government’s agenda and the macroeconomic setting

2.45 The above-described challenges are playing out against a political and economic backdrop that leaves very little space for reforms. Two complicating factors are the mounting calls for the government to reverse past initiatives, particularly privatization, and the rejection of economic liberalization policies concerning, for instance, the FTAA or exports of Bolivian gas. The Mesa administration’s priority is to create basic conditions for governance and for macroeconomic stability, minimizing the direct cost to the Bolivian people of efforts to lift the economy out of crisis and put it back on a growth path and to deepen social gains.
2.46 The first item on the government’s agenda is to amend the Hydrocarbons Act to increase oil and gas companies’ contribution to the treasury. It is the President’s hope that this will elicit the support needed to launch a binding referendum on the gas export project—the second agenda item—slated for the second half of 2004. If this export venture goes ahead the government would have less of a fiscal adjustment to contend with. The third issue on the agenda is the convening of a Constituent Assembly, perhaps in early 2005, to heed the call for political changes that would allow greater and more representative citizen input into decision-making. Under the terms of the Constitution, President Mesa could serve out his term through 2007, but were the Assembly to call elections, as it could do, the makeup of the Executive Branch could change.

2.47 On the socioeconomic front the government plans to prevent any deterioration in the macroeconomic accounts and move toward the fiscal deficit reduction targets in the IMF Standby Arrangement, implement emergency programs in parts of the country hardest hit by the events of last October, and give fresh impetus to the institutional reform strategy to combat corruption, depoliticize the civil service, and continue with justice system reforms. The government’s proposed program lists six specific targets: austerity, production, exports and job creation, solidarity, road infrastructure, oil and gas policy, and containing the fiscal deficit.

2.48 The macroeconomic environment agreed upon with the IMF for 2004 (Table XI) envisages modest economic growth and gradual adjustments of the fiscal deficit to make room for the investment expenditure required to make those targets achievable. However, the viability of the public finances over the medium term will depend on the country’s raising additional revenues from pumping its gas reserves and obtaining concessional finance.

<table>
<thead>
<tr>
<th>Table XI. The macroeconomy</th>
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<tbody>
<tr>
<td>Percentage of GDP</td>
</tr>
<tr>
<td>----------------------</td>
</tr>
<tr>
<td>GDP growth rate (%)</td>
</tr>
<tr>
<td>Excluding oil and gas</td>
</tr>
<tr>
<td>Inflation (%)</td>
</tr>
<tr>
<td>Current account</td>
</tr>
<tr>
<td>NFPS balance</td>
</tr>
</tbody>
</table>

Source: IMF-Bolivia Standby Arrangement.

2.49 Bolivia’s economy is fragile and its political situation tenuous. The October 2003 events narrowed the political and social space for discussions about medium- and long-range objectives. The future hinges both on decisions that come out of a Constituent Assembly and on the gas referendum’s outcome. At that point the country could rekindle discussion and once again chart its development priorities in line with the BPRS. Work done prior to the October events and discussed in the Consultative Group in Paris in October had already pointed to the need for adjustments to the Poverty Reduction Strategy to emphasize efforts to expand the Bolivian economy’s employment and income base, deliver social services to more of the population and improve service quality, and take a cross-cutting approach in combating social exclusion. The BPRS contains further targets—production-related goals involving growth of the small and mid-sized enterprise sector, new infrastructure, and rural development (Table XII).
2.50 To prepare for the National Dialogue on Production the government appointed a National Dialogue Board composed of representatives of Executive Branch agencies and civil society organizations, and the Dialogue’s Technical Secretariat. The object of this national exercise is to review the BPRS to come to a consensus on and further the institutionalization of a comprehensive package of production-related economic and social strategies to guide economic policy and poverty reduction efforts at the municipal, departmental, and national levels, with careful attention to cross-cultural, equity, and inclusion concerns.

2.51 By decision of the National Dialogue Board, the working methodology for this process divides activities into two phases. The “pre-dialogue” component running from 15 May to 23 July 2004 involves the internal organization of civil society; its end output will be production-related strategies tailored to each community’s potential. These strategies will be the chief input into the Dialogue proper, which is slated to begin on 26 July and finish on 29 October this year. The timetable is as follows:

<table>
<thead>
<tr>
<th>Phase</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Dialogue</td>
<td>26/07/04 to 24/09/04</td>
</tr>
<tr>
<td>Departmental Dialogue</td>
<td>27/09/04 to 15/10/04</td>
</tr>
<tr>
<td>National Dialogue</td>
<td>20/10/04 to 29/10/04</td>
</tr>
</tbody>
</table>
Table XII. BPRS national targets

<table>
<thead>
<tr>
<th>BPRS targets</th>
<th>Base year</th>
<th>2004</th>
<th>2007</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Millennium Development Goal-related</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Extreme poverty rate (%)</td>
<td>36.8 (2002)</td>
<td>33.7</td>
<td>29.6</td>
<td>20.0</td>
</tr>
<tr>
<td>2. Poverty rate (%)</td>
<td>64.6 (2002)</td>
<td>60.6</td>
<td>55.0</td>
<td>41.0</td>
</tr>
<tr>
<td>3. Primary school completion rate</td>
<td>71.5 (2001)</td>
<td>75.3</td>
<td>80.7</td>
<td>88.8</td>
</tr>
<tr>
<td>4. Child mortality (per 1,000 live births)</td>
<td>67 (1998)</td>
<td>58.8</td>
<td>55.2</td>
<td>45.1</td>
</tr>
<tr>
<td>5. Maternal mortality (per 100,000 live births)</td>
<td>390 (1994)</td>
<td>317</td>
<td>279</td>
<td>200</td>
</tr>
<tr>
<td>6. Percentage of municipalities with over-3% Chagas infection rate</td>
<td>48 (2002)</td>
<td>38</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>7. Dwellings with piped water (%)</td>
<td>73.2 (2001)</td>
<td>74.3</td>
<td>80.0</td>
<td>89.0</td>
</tr>
<tr>
<td><strong>Production-related</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Land tenure regularization (% of the total parcels slated for titling)</td>
<td>14 (2002)</td>
<td>50</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>12. Supply chain job creation (thousands of persons)</td>
<td>400 (2002)</td>
<td>470</td>
<td>700</td>
<td>1,200</td>
</tr>
</tbody>
</table>

Source: Government of Bolivia (BPRS) and World Bank.
III. REVIEW OF THE PREVIOUS COUNTRY STRATEGY

A. Strategy focuses and achievements

3.1 The overarching aim of the Bank’s strategy for support to Bolivia from 1998 to 2003 was to help further public poverty-reduction policies in keeping with the central focus of the government’s 1997-2002 work plan. That objective was subsequently ratified by Bolivian society and enshrined in the Bolivia Poverty Reduction Strategy (BPRS) produced in 2001. Target areas for support were selected to tie in closely to nationwide sector reforms and production-enhancing investments, pursuing the priorities the authorities had charted following consultations with civil society. The 1997-2002 work agenda and the 2001 BPRS were the fruit of government-led consultation exercises across the country in 1998 and 2000, respectively.

3.2 To work toward the country’s and the Bank’s overall goal, activities during the above-mentioned span pursued three focuses: (i) economic growth and creation of opportunities, providing transportation infrastructure and fostering microenterprise and rural development; (ii) human capital development and availability of core social services, the aim being to improve access, quality, and efficiency of social services—education, health, child development, sanitation, and housing; and (iii) support for governance and consolidation of the reforms, through public sector modernization, decentralization, and deconcentration programs.

3.3 The administration that came to office in 1997 was faced with a series of challenges to implement and deepen reforms associated with new regulatory frameworks and a reconfiguration of the State for public services delivery. Two other exigencies were implementation of the coca eradication program and identification of concrete reforms to reduce corruption and professionalize the civil service. Furthermore, an economic and social climate far removed from the scenario envisaged in the strategy created unforeseen financing needs. In the course of its programming exercises the Bank reviewed its activities in Bolivia to address several factors: (a) changes in the country environment; (b) new instruments the Bank had developed; (c) opportunities opening up for private-sector participation, (d) project cofinancing possibilities, and (e) progress made in Bank-supported reforms. Though none of these changes altered the Bank’s strategy thrust—all but one of the proposed operations in the country paper were carried through—they did heighten the emphasis on reform of the State and governance issues. Even the sector loans approved to help contain the fiscal deficit addressed, from various angles, the matter of transparency and monitoring of public spending.

3.4 Total loan approvals in 1998-2002 in pursuit of the strategy came to US$681.6 million—US$473.5 million in investment lending, US$90 million in sector loans, and US$118.1 million via the Bank’s Private Sector Department. The Bank’s contribution to the poverty reduction goal over that interval has to be looked at against an economic, political, and institutional backdrop far removed from what the Bolivian authorities and international cooperation agencies had anticipated, the result of external and domestic shocks over which the Bank, and at times the country, have no control. As was discussed in section I, initiatives in past years have done much to advance Bolivia’s development but more time and work will be needed for the gains to materialize—in contrast to the immediate, strong adverse effect of the negative shocks. This disconnect between reform costs and benefits and the ensuing tensions colored the country context in which the Bank was pursuing its strategy.

3.5 A number of features made the Bank’s work in Bolivia relevant during this period: its alignment with the country’s objective and the principal government-led sector reforms, which had backing from the rest of the international community and subsequently would become pivotal for the Millennium Development Goals (MDGs); flexibility to be able to rise to reform opportunities that opened up throughout the period; availability of concessional financial resources to fund investment requirements and debt reduction initiatives at a time of growing vulnerability of the public finances, and nimbleness to move swiftly to cushion the portfolio-execution impact of the string of shocks the country had to weather. According to participants in consultation events that looked at the Bank’s accomplishments, Bank activities were relevant in the areas of policy promotion, delivery of timely financial assistance, creation of a monitoring framework with which to track indicators of the workings of government, and flexibility to respond to the country’s objectives. The authorities have confirmed that the Bank’s portfolio is in line with the country’s priorities embodied in the BPRS.

3.6 According to available data, structural poverty—taking the UBN index as a yardstick—decreased 17.3% in Bolivia between 1992 and 2001. The country was able not just to sustain but to deepen these gains despite the sharp downtrend in the economy since 1998. This is evident when one compares Bolivia with other countries at similar human development levels: Bolivia’s economy grew at a rate of 1.2% between 1995 and 2001 but its human development index climbed 6.5%, surpassing countries with stronger growth records such as Ghana, China, El Salvador, Guatemala, India, and the Dominican Republic.

49 One consultation exercise sponsored by the British cooperation agency DFID featured focus groups. The Bank also funded the organization of discussion groups in Washington and in Bolivia, assembling cooperation community, government, civil society, and Bank representatives to learn how the Bank’s impact was perceived in Bolivia and discuss lessons learned, desirable target areas for future Bank support, and constraints.

3.7 **IDB loan disbursements over the span of the strategy helped pay for reforms to further that objective, notably in the education, health, water and sanitation, and housing sectors that figure in the UBN index.** The IDB was a prominent partner (Tables XIII and XIV), accounting for one fifth of external funds disbursed to Bolivia between 1998 and 2002—equivalent to 1.2% of GDP—and around 14% of total financing for the public investment program. Here the Bank was joined by other agencies, particularly to fund reforms to improve various UBN dimensions. In practice, then, cooperation resources came to be aligned around sector reforms. This was an important step to entrench a reform vision (rather than a necessarily project-centered one) in the government and external agencies alike. To deliver its support the Bank deployed a mix of investment and sector loans, the latter specifically targeted to reforms.

3.8 **Outcomes of Bank activities.** Only 32% of the Bank’s investment-loan disbursements between 1998 and 2002 were for operations approved over that interval; thus, the bulk of Bank support for Bolivia’s objectives under the previous country strategy came from operations already under way plus two sector loans—one approved in 1998 to protect social spending and the other in 2001 to help the government implement the BPRS (classified in Table XIV under “economic programs”). Table XIII illustrates the weight of the Bank’s funding relative to selected macroeconomic variables.

3.9 In regard to the overarching objective of reducing poverty, 49% of the Bank’s 1998-2002 disbursements in pursuit of the strategy focus of human capital development and broader access to core social services were for reforms and
investments to improve UBN components: education, water and basic sanitation, health, and housing. Under the original and enhanced HIPC initiatives the Bank approved two sector loans to protect and monitor social expenditure. In the original HIPC Initiative the Bank spearheaded the use of a “social matrix” that set out country commitments on social policies and measures and social-sector performance metrics. This social matrix and the Bank’s subsequent sector loans (1019/SF-BO for fiscal adjustment and maintenance of social spending and 1097/SF-BO to support the BPRS), which became a cornerstone of social policy in Bolivia, had the following impacts: (i) they helped deepen health, education and child development, and other social-sector reforms; (ii) they kept on successive administrations’ agendas the need for improvements in social indicators in complicated economic, political, and institutional circumstances; (iii) they improved coordination between the social sectors and the Finance Ministry; and (iv) they bolstered the country’s capacity to monitor the implementation of social reforms. In addition, these programs helped shape a consensus that protecting pro-poor spending in times of fiscal strictures was a priority both for the government and for international community support. Tangible expressions of this consensus are the expenditure maintenance provisions in Bolivia-IMF agreements since 1998 and the World Bank’s social spending protection operation in the country, which follows the lines of the IDB sector loans.  

3.10 Aligning Bank activities to the strategy driven by Bolivian society has strengthened the continuity of reforms whose impact would be felt in the medium to long term, placing the government at the center of international cooperation coordination. Helping to enhance this coordinating role were moves to consolidate the Office of the Deputy Minister for Public Investment and External Finance (VIPFE) as the government’s liaison with international cooperation providers, and policy and investment loans and technical cooperation to promote monitoring of the workings of government, devise sector-specific metrics, and identify priority social programs to target for protection in the event of fiscal adjustments. The social matrix with physical and financial monitoring of priority programs has created learning in the implementing ministries; this set the stage for operations developed by other cooperation agencies employing the same approach. The Bank thus was able to help Bolivia manage the challenges of the moment but still pursue the long-range targets the country had mapped out as action priorities.  

3.11 Selected indicators illustrate the gains posted since 1997: a 72% primary school completion rate, up from 60%; 54% of deliveries now medically attended, compared to 42% in 1997, and a 100% DPT immunization rate. The UBN

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Table XV: Primary education performance

<table>
<thead>
<tr>
<th>Indicator</th>
<th>1997</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net enrollment ratio (6-13 age group) (%)</td>
<td>92.0</td>
<td>95.0</td>
</tr>
<tr>
<td>Retention rate through sixth grade (%)</td>
<td>54.9</td>
<td>80.5</td>
</tr>
<tr>
<td>Urban</td>
<td>81.6</td>
<td>84.7</td>
</tr>
<tr>
<td>Rural</td>
<td>41.0</td>
<td>74.0</td>
</tr>
<tr>
<td>Years of schooling (19-65 age group)</td>
<td>7.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Urban</td>
<td>9.1</td>
<td>9.6</td>
</tr>
<tr>
<td>Rural</td>
<td>3.7</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Source: Information and Evaluation System (SIE) (enrollment and retention); National Statistics Bureau (educational attainment).
component that came in for most funding was education (9.2%); the IDB was the second largest provider of education reform finance, furnishing 27% of the total. These resources supported the first phase of the education reform program (PRE) which sought to rewrite the curriculum of the eight-year compulsory cycle. According to an evaluation arranged by the government in 2002 the reforms had reached 70% of the nation’s public schools, accounting for 40% of urban and 50% of rural enrollments. From an outcome standpoint, there were substantial improvements in a set of education indicators (Table XV). With near-universal primary enrollment Bolivia is approaching the Millennium Goals for that education level. In terms of equity, public expenditure on primary education is the most equitable in the sector’s spending structure; the gender gap is all but closed. In rural areas, education access was the UBN dimension that saw the greatest gains. Thanks to the reforms, bilingual education has been made part of the curriculum to systematically tackle problems of exclusion. These are impressive achievements, but the education reform program is a long-range proposition: Bolivia is at the halfway point of the originally slated 20-year horizon. The challenges now are to enhance the quality of learning and maintain continuity in plans to boost rural enrollments and improve the caliber of rural education. A US$36 million loan approved by the Bank in June 2003 is addressing these needs. From a fiscal standpoint, the costs of education reform, particularly the wage bill, are putting pressure on the treasury and are one issue that will require close attention to make sure the reform will be sustainable in times of fiscal strain.

3.12 Water and basic sanitation systems took up 6.8% of international cooperation disbursements; the Bank supplied 37.2% of the total. Roughly two thirds (67%) of IDB disbursements were for urban basic sanitation. The country-strategy goal for urban areas was to extend sewer system coverage and update water service connections; the respective achievements between 1997 and 2001 were a 6% increase in sewer connections and a 12% increase in households with water-system hookups. However, since these gains could not keep pace with rapid urbanization the overall coverage rate dropped 4%. Rural areas saw a 7% increase in piped water service and a 9% increase in sewer connections; the percentage of households with substandard water supply and sanitation facilities fell 19% between 1992 and 2002—second only to the improvement in education, as far as UBN components are concerned. Even so, expanding the rural user base for water and sewer services is a continuing priority. The Bank’s activities were less effective in those parts of the country than in urban areas. The fact that its 1999 loan for small municipalities (populations under 10,000) has only recently started to disburse has muted the Bank’s effectiveness in achieving more equitable development of this sector. Rural areas have posed a special challenge because of higher utility delivery costs—the


55 The loan document for the Santa Cruz-Puerto Suárez integration corridor project (1101/SF-BO) summarizes the sector’s progress and current challenges.

56 See IDB and World Bank (2004), pages 205 and 206.
result of smaller economies of scale, distance from trunk services, and institutional arrangements that do little to encourage municipal investments in the sector.\(^5^7\) Operational problems in the Social Productive Fund that gives grants to small municipalities hold up the execution of investments. Water and sewer utility customers’ sense of ownership of these services, the availability of appropriate technologies, and institutional improvements in the Social Productive Fund have been identified as keys to increasing the user base of water and sanitation systems, and they are already being incorporated by the IDB operation. The Bank’s work in this sector has earned very positive ratings by virtue of the sectoral organization features of the sanitation program for small rural municipalities. Thanks to the implementation arrangements derived, previous funded urban sanitation projects have better sustainability prospects.\(^5^8\)

Table XVI. IDB barrio improvement program

<table>
<thead>
<tr>
<th>IDB impact indicator</th>
<th>Programmed for 2003</th>
<th>Achieved 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipalities participating</td>
<td>35</td>
<td>44</td>
</tr>
<tr>
<td>Barrios improved</td>
<td>53</td>
<td>81</td>
</tr>
<tr>
<td>Households with improved infrastructure and title deeds (thousands)</td>
<td>23</td>
<td>22.3</td>
</tr>
<tr>
<td>Municipalities instituting streamlined permit procedures</td>
<td>18</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Bolivia. Loan proposal for a housing support program, and project performance monitoring report to 2003.

3.13 Health services accounted for the Bank. Evaluations conduct the improvements achieved in Bolivia thanks to the Bank’s support to basic health care delivery, as or infrastructure in place. The result was an increase in institutional delivery and under-5 immunization rates and a drop in the percentage of low birthweight children in the urban and rural areas targeted in Bank operations. One thing learned from the Bank’s interventions was the need for a sharper focus, in future operations, on community and municipal participation to achieve the desired increases in coverage and enhance a program’s sustainability prospects.

3.14 The housing sector has been one of the most dynamic in the Bolivian economy because of the rapid pace of urbanization. The experience of the Bank—one of the handful of agencies to assist in housing reform in Bolivia—has been mixed in this area in which progress has been slowest is the reconfiguration of the institutional base and legal framework, which is intended to restructure the sector and lower real-estate market transaction costs. One major accomplishment of Bank activities, given the face of Bolivian urban development discussed in the previous chapter, was the passage of the Law Governing Regularization of Urban Property Rights which prescribes mechanisms and simplifies procedures for legalizing ownership and currently unregulated dwellings. Another mark of progress is the liquidation of the National Social Housing Fund, which made for a less than transparent housing finance policy and was easily open to political manipulation. The program’s most impressive gains were housing safety and quality improvements in poor communities and streamlined municipal bureaucracy, the targets in that regard having been amply surpassed (see Table XVI). Still on the agenda is a set of interrelated challenges to be able to sustain these gains and address areas where the Bank’s activity proved least effective: solidify housing

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\(^{5^7}\) See IDB and World Bank (2004).

\(^{5^8}\) For a summary see the project completion report for loan 858/SF-BO and C. Pérez de Castillo (2001).
legislation in line with the targets proposed in the Bank’s program; develop a housing finance market, and implement a regularization plan to translate legislative improvements into changes on the ground.

3.15 Areas relating to the Bank’s second strategy focus—economic growth and creation of opportunities—received 37.7% of all loan disbursements between 1998 and 2002. Among other objectives the Bank sought to support macroeconomic stabilization efforts, provide transportation infrastructure, foster the growth of microenterprise, and further rural development.

3.16 The Bank’s support for Bolivia’s moves to stabilize its macroeconomy took the form mainly of its participation in the HIPC Initiative and its generation of a positive net flow of concessional resources to the country. The Bank’s contribution under the two HIPC initiatives came to US$838 million. On average, in net present value terms, this constituted 35% of the total debt relief package. Next came the bilateral agencies, whose combined support averaged 33% of the total in net present value, followed by the World Bank with 14%, the CAF with 8%, and the IMF and other multilateral organizations with 7% and 3%, respectively. When Bolivia reached the enhanced HIPC completion point in 2001 it had sustainable debt and fiscal indicators, but a sliding economy coupled with the government’s borrowing strategy and changes to the pension system have eroded part of the fiscal gains achieved in this initiative, dampening the BPRS’s fiscal viability prospects in the process. When the Bank presented the BPRS assessment to the Board it mentioned the eventuality of a slow-growth scenario and heightened social conflict (see document GN-1970-29). As for the flow of funds to the country, the HIPC Initiative helped make for a positive flow of resources to Bolivia precisely when its economy was faltering, and the availability of Fund for Special Operations (FSO) resources has helped hold down the marginal interest rate on the external debt, which impacts fiscal sustainability. At the end of the period reviewed here the Bank is still Bolivia’s largest creditor (see Table XVII).

3.17 **Road infrastructure** projects came in for 15% of total Bank disbursements, the highest in the interval reviewed here. This was 16.6% of aggregate external funding disbursements, the CAF having headed the list. Road travel costs have come down thanks to Bank-funded operations that helped improve road connectivity within Bolivia and between Bolivia and its neighbors.59 The Bank also played a prominent role in securing a highly concessional financing package for construction of the Santa Cruz-Puerto Suárez integration corridor that connects the Bolivian region with the highest production potential to Brazil and is part of a network of priority

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59 Travel time between Cochabamba and La Paz was shortened from 7 to 5 hours, between Santa Cruz and Cochabamba from 12 to 7 hours, and to the Chilean border from 15 to 2-1/2 hours.
corridors identified in the IIRSA initiative. Three Bank-funded projects completed over the last five years have cut travel time on arterial roads by as much as 83%; traffic on some roads has tripled. However, a host of problems were encountered as the successive projects were implemented, and though their objectives were achieved they took up to six years longer than planned. Acknowledging these problems in a sector that is so critical to Bolivia’s economic growth and pursuing new operations to remedy them will require consistent hard work on sector policies and project preparation and execution. On the sector policy front the Bank is: (a) adjusting its Bolivia road sector strategy; (b) coordinating institutional and institution-building work with other donors; (c) analyzing the short- and medium-term financial capacity of departmental governments responsible for counterpart contributions; and (d) analyzing road sector financing to ensure that consummated investments will be sustainable. On the project preparation side the Bank is: (a) tightening technical and environmental standards-related requirements for construction tenders to be authorized and (b) making a review of a works project’s fiscal impact a part of the economic analysis of the operation.

3.18 Though the rural sector came in for relatively less Bank support, the improvements achieved in that arena are opening up avenues for future Bank action. For one thing, according to available data, irrigation projects can significantly boost the income of beneficiary households (with increases averaging 75%) and increase food security from the 10%-20% range to 60%-80%. One recommendation coming out of that evaluation is that in future projects the Bank explore works maintenance incentive schemes and that users be more involved in quality monitoring.

3.19 Through its support for institutions and reform of the State the Bank has helped strengthen Bolivia’s tax and customs administrations, two vital areas for transparent, efficient public revenue management. One example is the customs reform and modernization program. The joint IDB-World Bank-IMF mission which assessed that program’s status and prospects in January found that progress had been made on every front—human resources, standards and procedures, compliance monitoring, information technology and communications, and infrastructure and facilities. According to the mission report, Bolivia now has the

60 Highway to the Chilean border.

61 Including such chronic problems as institutional weaknesses that delay project contracting and execution; incomplete technical designs that create construction delays and cost overruns; counterpart resources that are insufficient or not available on schedule; environmental and social issues not duly addressed or managed; lack of a sound road operation and maintenance system, which means that roads do not live out their design service life; scant attention to sector policy issues or works planning and programming; and inadequate distribution of responsibilities between the different jurisdictions involved.

62 Some of these measures, notably moves to more accurately assess road projects’ environmental and social impacts, leave the Bank less flexible than other agencies, particularly the CAF. However, this is an indispensable task in Bolivia, given its complicated geography and population distribution.

63 Evaluation report on Bolivian irrigation projects and systems improved by the National Irrigation Program (PRONAR) and others.
foundations of a modern, sustainable customs administration. In the judicial sphere there have been successful experiences with community-based justice, particularly in rural areas, which would lend themselves to replication.

3.20 In recent years the Bank’s Private Sector Department (PRI) was one of the few agencies able to channel private capital to Bolivia, leveraging investment for basic water supply infrastructure (Aguas del Illimani), telecommunications (Redibol), and gas transportation (Transredes). Particularly noteworthy here were PRI’s coordinated efforts with the CAF.

B. Portfolio performance

3.21 Over the course of the period reviewed here the macroeconomic and institutional challenges for implementation of the country’s strategy generally, and the Bank’s strategy in particular, were much stiffer than anticipated. The state of the economy threw the reforms’ fiscal sustainability into question; the public service’s vulnerability to political changes and thin municipal management capacity raised questions as to the sustainability of public institutions. Against this backdrop, the performance of the Bank’s operations and shifts in its portfolio reflect on the one hand the Bolivian authorities’ commitment to continuity of the reforms and, on the other, the serious political-institutional and economic bottlenecks that are making it difficult to implement the reforms more effectively and make them sustainable.

3.22 Between 1998 and 2002 the Bank approved 24 loans totaling US$681.5 million, including three private-sector loans for US$118.5 million. The number of approvals coupled with the completion of 17 longstanding operations has made for a younger portfolio (4.3 years).

3.23 In keeping with the government’s emphasis, governance and public sector reform operations accounted for a much larger share of the portfolio than originally programmed (see Table XVIII), particularly the areas of transparency and efficiency in revenue management and allocation of expenditure and the professionalization of the civil service. One third of approvals over the period were for operations in those domains. The main changes in social-sector lending were a result of the enhanced HIPC initiative and implementation of the BPRS, for which the Bank had provided support from the outset. The social portfolio thus was aligned to the goals the country had set for itself. PRI scaled up its work with pro-growth initiatives in

<table>
<thead>
<tr>
<th>Table XVIII. IDB portfolio breakdown, 2003¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(percentage of total)</td>
</tr>
<tr>
<td>Planned²</td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>Growth</td>
</tr>
<tr>
<td>Human capital development</td>
</tr>
<tr>
<td>Governance</td>
</tr>
<tr>
<td>Lending (US$ million)</td>
</tr>
<tr>
<td>Number of loans</td>
</tr>
</tbody>
</table>

1. Including PRI loans.
2. As per the country paper lending program.

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Bolivia; these also benefited from the Bank’s ability to marshal financing from other cooperation agencies to fund programmed projects.65

3.24 The irregular disbursement pattern in the previous strategy period is attributable to policy lending and the impact of Bolivia’s deteriorating public finances on overall public investment outlays. The Bank was able to keep its investment loan disbursements relatively stable in comparison with overall public investment expenditure (Figure IV). The less than proportional change in Bank disbursements vis-à-vis total capital expenditure is a testament to the Country Office’s monitoring, follow-up, and coordination work with executing agencies and the Finance Ministry. This, coupled with the Bank’s policy lending and HIPC debt relief, has made for a positive and mounting net flow of funds to the country at a time when private capital flows have been shrinking. The average disbursement rate for the period stood at 17.23%.

3.25 The bulk of projects had been approved from 1994 onward—the year Bolivia accelerated its program of decentralization and resource transfers to municipalities. The “funds” apparatus via which monies are expended has been a problem for effective and transparent resource use; furthermore, these “funds” are malleable and susceptible to changes in the administration. The Bank tried many ways to help remedy the issue of transparent use of these facilities (Campesino Development Fund, Regional Development Fund) but problems stemming from different administrations’ commitments to this structure have yet to be resolved.

3.26 In terms of achievement of objectives, the percentage of operations classed as problem projects has dropped from 15.4% of the total to 6.9%; those with unsatisfactory or very unsatisfactory implementation progress have fallen from 30.8% to 17.2%. Under the Project Alert Information System (PAIS) the share of such projects came down from 15.4% in 1998 to 10.3% in 2003. To judge from these indicators, it is project implementation and not strategy focus (objectives) that is the main impediment to more effective Bank action in Bolivia. The same

65 For instance, the Pailón-San José and San José-Puerto Suárez segments of the Santa Cruz-Puerto Suárez integration corridor. Originally the Bank was to supply a total of US$234 million in funding for the two sections. Donor coordination made it possible to diversify the sources of soft funding for the corridor, thereby freeing up US$159 million in IDB resources. The Bank put US$21 million of that sum toward financing for the environmental impact mitigation program (BO-0033).
conclusion can be drawn from the analysis of project completion reports (PCRs) of the operations completed over that interval.\footnote{An analysis of PCRs of the 17 operations completed over the period reviewed here yielded the following figures: 69\% of the operations substantially fulfilled their objectives; none of the projects was completed on schedule; all projects took at least six months longer than planned to finish; in 63\% of the operations the actual and budgeted costs were substantially the same; in six projects the cost variances topped 10\%.}

3.27 Thanks to the Bank’s active, ongoing efforts to cushion the impact of heightened institutional volatility and the fiscal crunch on project implementation, projects were delivered with their objectives achieved and at reasonable cost. Disbursements were relatively insensitive to cuts in investment expenditure, and project risk and performance improved. In addition to fielding 23 administration missions and 11 special monitoring missions, the Bank permanently instituted a set of supervision practices featuring quarterly portfolio reviews with the Finance Ministry and the respective executing agency to resolve program-specific implementation and financial management issues; programming tied to implementation progress in the same sector, and standardization of implementation, giving project executing units an operations administration toolkit for procurement and financial management.\footnote{The prime task of the mission members—ROS/DAU, AUG, SC1, OD1, CAR, LEG and CBO specialists—was to review active operations’ financial management processes, with a special emphasis on the review of audited financial statements.}

3.28 Following a diagnostic exercise in 2002 the Country Office did an assessment of institutional capacity for each project to see if institution-strengthening or project implementation adjustments were needed. The improvements this could mean for procurement and disbursement processes could expedite project execution.\footnote{To use this approach it has been agreed with the authorities to commission twice-yearly concurrent operational audits, to be funded out of the respective loans.}

3.29 Another decision taken to speed up slow projects was to encourage the signing of performance agreements between the Finance Ministry and executing agencies (at the cabinet minister and project manager level) setting out each party’s undertaking to execute the respective operation efficiently, effectively, and in a timely manner, within a management-by-results framework (see Annex III).

3.30 \textbf{Nonreimbursable technical-cooperation funding} was needed as well to implement the country strategy. The Bank approved 64 such projects over the span of the strategy, furnishing a total of US$27.9 million in resources from the Fund for Special Operations (FSO), Multilateral Investment Fund (MIF), and Funds under Administration (CT-Fondos). Two thirds of the total went to operations to boost economic growth; the MIF, in particular, provided considerable support for management capacity development in microenterprises, strengthening of microfinance institutions, and streamlining of procedures for private-sector dealings.
with the State. Also approved were five Social Entrepreneurship Program (SEP) projects. These loans and parallel technical-cooperation operations totaling US$3.4 million supported mainly innovative microlending and microleasing initiatives. In terms of number of operations and total funding this facility accounts for a relatively modest share of the Bank’s operations portfolio, but by making financing available directly to low-income population segments the Bank is providing significant added value.

C. Lessons learned

3.31 **The political arena.** The political process in Bolivia introduces a perverse dynamic into the public service, making it difficult to identify sound, appropriate, enduring counterparts. The turnover in key administration posts breaks the continuity that is needed for projects to have a real impact. These changes occur right up to the most senior echelons, creating a pendulum effect that makes it impossible to follow through on policies. Gains achieved in years of work can be erased overnight, with the attendant waste of resources. This governance issue is an ever-present risk to the effectiveness and efficiency of the Bank’s work in the country. The Bank should acknowledge this volatility in its programming process, identifying areas that would be less susceptible and discussing with the authorities the development of projects that can help provide stability for the Bolivian public sector in the policy sphere and for project execution. For instance, with the sector programs it funded the Bank helped maintain continuity in key reforms even at volatile junctures and foster genuine political dialogue, thereby gaining input into public policy formulation. The country strategy has sought to replicate this experience and learning in new areas, specifically, institutional transparency (pensions) and competitiveness, by way of sector loans.

3.32 **The reforms and their sustainability.** Fiscal constraints are a serious threat to the continuity of reforms whose impact would be felt in the medium to long term. In its policy lending experience the Bank has seen excellent prospects in Bolivia and in the international cooperation community for progress in determining the costs of the reforms and applying management by results, tying resource availability (budget support) to the achievement of specified targets. Social-sector loans have proved to be a good avenue for more clearly articulating the terms of the Bank’s relations with the government and also helped identify the fiscal commitment and see it explicitly included in agreements with the IMF. Because of their weight, these loans could include as priority aims not just social expenditure protection and maintenance but also significant improvements in efficiency of public spending, to more effectively build in a sustainability dimension (e.g. maintaining investment expenditure). However, prospects for the Bank’s pursuit of this approach in Bolivia are limited by the availability of instruments suitable for financing reforms, so it will continue to work on the aspects of costing, with selective support for areas in

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69 One noteworthy operation is the project to modernize the business registry service, since Bolivia has been rated among the most inefficient countries for setting up a business.
which this form of lending can have a policy stabilizing effect and help chart the course of State action.

3.33 **The institutional factor.** Executing agency weaknesses are the primary problem for portfolio execution in Bolivia. This issue’s high profile in portfolio monitoring and follow-up contrasts with the scant attention it received in project design over the strategy span reviewed here. One important lesson that can be extracted from that period for the new strategy is that an understanding of executing agencies’ potential and limitations needs to be the top priority in operations design. Project teams should do more to ensure that the implementation arrangements being proposed take due account of institutional constraints in decentralized government operations (municipalities and *departamentos*) and of the merits and drawbacks of alternative implementation approaches that would duly factor in the difficulties of operating in an environment in which plans for strengthening State institutions are not easy to achieve on the ground.

3.34 **Realistic goals and project scaling.** Not all the project implementation problems can be traced to weak points within the country: highly ambitious operations design—in terms of both objectives and amounts—also plays a part. The most important lesson here is that new operations need to be smaller and more focused, with more precise objectives and targets. This is a paramount consideration in Bolivia’s current political-institutional context; it is already being addressed in operations identification and portfolio monitoring work.

3.35 **Availability of concessional resources.** The incentive system in place for FSO-eligible member countries, in which countries that do not use their allotment lose it, tends to favor new project approvals and sideline the importance of solid portfolio execution in the public sector. This does little to make project execution the centerpiece of the Bank’s work in Bolivia and sharpen and keep to its focus. The FSO countries typically have a large number of projects under way. Though this has to do with these countries’ myriad reform needs and their scant capacity to manage large projects, the FSO incentive feature plays a role as well. The impossibility of securing resources for reforms and assorted financing requirements, particularly when a reform program pushes up current expenditure, accentuates that trend. For this situation to change there need to be tighter tie-ins between portfolio performance, resource allocation, and approvals. The Bank has in fact made substantial progress on this front and is exploring better incentives structures for FSO resource use.

3.36 **Coordination.** A lack of coordination is muting the institutional dynamic of the Bolivian State. Government agencies are looking more to external concessional resources than to budget funds; this, in combination with the country’s political dynamic, is diluting the government’s ability to orient public resource allocation. In its work with Bolivia the Bank should be more careful than ever not to add to this problem and, in concert with other cooperation agencies in the country, it should spur initiatives to engage the international cooperation community around reforms that are key to Bolivia’s advancement. Institutional considerations aside, this will
be absolutely crucial at a time of fiscal strictures. Consolidating resources and efforts to afford fiscal and institutional protection for priority reforms can only benefit the country. The Bank’s very positive experiences along these lines in transportation projects and programs lend themselves to replication in other sectors.

3.37 **Outcome monitoring.** To counteract the effects of weak public-sector institutions and public management the Country Office is implementing a series of measures that will better equip both the Bank and executing agencies to monitor outcomes. These include: (i) improving institutional analysis, particularly process analysis of executing agencies; (ii) the provision of standardized loan management tools, primarily for procurement and disbursements; and (iii) better planning of outcomes and analysis of scenarios that could constrain their achievement. This initiative should go hand in hand with projects that have clearer outcome goals and with the allocation of monitoring responsibilities. In particular, the shift to a reform focus has implications for deciding where efforts and resources should be directed to enhance the capacity to measure and monitor outcomes. Helping Bolivia manage this move will mean focusing on the country more than on the Bank, that is, strengthening public sector and perhaps civil society institutions to equip them to gauge reform outcomes. With its loans and technical cooperation operations the Bank has made major contributions on this front (national census, MECOVI project, BPRS monitoring); the BCS will continue to sharpen this focus.
IV. THE BANK’S STRATEGY

A. Objectives

4.1 Sustainable poverty reduction is the overarching objective of the Bank’s Bolivia country strategy (BCS) for the coming years, in pursuit of which it will support government-led efforts to overcome the country’s economic and social development challenges. The backdrop for the strategy’s implementation is a complex one, as the problems the government has encountered in tackling the most pressing concerns, such as the critical state of the public finances, can attest. There is a widespread perception that the reforms of the past decade have not worked and, if anything, have worsened the lot of the poor. That sentiment, coupled with the economic crisis, is limiting what the government and, by extension, the Bank can do to swiftly address these challenges. Furthermore, given Bolivia’s fragmented politics and society it will be no easy task to shape even a minimal consensus around a medium- and long-range development vision concrete enough to meaningfully orient public spending or multilateral aid over the next four years. A new National Dialogue whereby the government would seek validation of its plans and rekindle a policy dialogue on implementation of the Bolivia Poverty Reduction Strategy (BPRS) has been deferred time and again; the current expectation is that it would take place in the second half of 2004. These two elements—rejection of the reforms and no shared country vision—will continue to weigh heavily in the coming years, with repercussions for the kind and scope of projects that could be successfully carried through in Bolivia.

4.2 Because of these exceptional circumstances this country strategy has been conceived as a process, to identify interventions by way of which the Bank, in concert with other donors, could help attenuate the risks of a heightening of economic and social instability and preserve the social gains of the last decade. With that in mind, the near-term BCS goal is to contribute to the reinstatement of basic conditions for governance and macroeconomic stability. The frame of reference for the proposed activities is the government’s fiscal and financial program, pursuing the targets set out in the Standby Arrangement with the IMF, which facilitates the coordination of the various agencies’ work toward these common goals.

4.3 The hope is that with the anticipated easing of political and economic uncertainty and based on the outcomes of the 2003 National Dialogue, the gas referendum, and the Constituent Assembly the Bolivian authorities will get back to a work agenda with the international cooperation community, the aim being to remove impediments that are slowing the country’s progress toward the poverty reduction targets mapped out in the Bolivia Poverty Reduction Strategy (BPRS). The Bank

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70 Under the terms of Bolivia’s Political Constitution, general elections would be held in 2007 and the elected government would take office in August that year.
will take advantage of the spaces that open up in Bolivia to move on more medium-range goals, specifically: (i) sustainable growth of the economy and production and (ii) development of a minimum level of core services for all Bolivians, so that the social gains of the last decade are shared more broadly.

B. **IDB areas of influence**

4.4 One topic in the country dialogue was potential areas of Bank influence to help attain the objectives discussed above. It was concluded that at the present time the Bank is positioned to help harmonize short-run goals (in line with the country’s current circumstances and the new government’s priorities) with longer-range objectives to meet development challenges. Factors that went into these considerations are the importance of the Bank’s portfolio in volume terms and by virtue of its close alignment to the very precise BPRS medium- and long-term social and economic development goals—these being directly tied to the MDGs; the assistance delivered in 2003 by way of quick-disbursing loans; the availability of additional concessional resources over the next four years, and the Bank’s and government’s wish to begin sharpening the focus of future operations.

4.5 Another consideration when selecting new operations, along with the real space that exists for reforms in Bolivia and the Bank’s undisbursed loan proceeds, will be what the other international cooperation agencies are doing. Table XIX presents the percentage distribution of undisbursed funding by agency and sector. In order to assess the potential strategic role of the Bank’s lending program in the next few years, the IDB percentages include only projects already in the operations program, whereas the figures for other agencies include programmed and pipeline operations. The undisbursed pool comes to US$3 billion. For purposes of future Bank support, five items stand out in Table XIX:

a. The availability of undisbursed external funds for Bolivia is not exclusive to the IDB. There is a general problem in the country with full use not being made of external funding; this helps fuel the perception that projects are being executed inefficiently and resources are being wasted.

b. Rural development assistance to Bolivia, being delivered by a host of donors, is atomized and operations are scattered across the country. Small isolated investments appear to do little to close the huge basic-services gap in the Bolivian countryside. Other donors’ initiatives have been less than successful.\(^{71}\) Better coordination and hence more effective assistance would benefit this sector.

c. Relatively few donors are furnishing support for road infrastructure even though investments still are needed to connect the different areas of Bolivia and gain

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\(^{71}\) The World Bank’s participatory rural infrastructure project approved in 1998 has been rated unsatisfactory for implementation progress and achievement of development objectives. US$22 million of the approved US$62.8 million for this operation has been disbursed.
access to regional markets and this sector still needs considerable strengthening. The major agencies (CAF, IDB, World Bank) are crucial for road infrastructure finance: given the dearth of alternatives, the exit of any one of these organizations would leave a huge funding gap.

d. Though growth and competitiveness are key concerns they account for only a modest percentage of total funding and have engaged a relatively small number of donor agencies. This contrasts with the emphasis on social concerns in lending volumes and in the international cooperation community’s dialogue with Bolivia, a focus that was accentuated with the original and enhanced HIPC initiatives.

e. Though more than half (51%) of Bolivia’s poor live in cities the country has received scant funding for urban infrastructure from just a handful of donors. La Paz and El Alto alone—the highland region’s largest urban centers—are home to 22% of the nation’s impoverished. The rise in the poverty rate in that part of the country (from 54.2% to 58.5%) between 2001 and 2002 was the steepest in the nation. Rapid urbanization is creating yet another challenge for municipalities with thin management capacity.

Table XIX. Focus area and funding 2004-2006 (percentage shares by area and agency)

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<td>8.3</td>
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<td>9.4</td>
<td>3.4</td>
<td>18.9</td>
<td>0.5</td>
<td>6.8</td>
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<td>11.4</td>
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<td>Agency %</td>
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<td>8.1</td>
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</table>


4.6 In light of the above considerations, the Bank activities envisaged in the BCS will be structured around three action focuses:

a. **Improve the management capacity and transparency of the State**, primarily by strengthening operations in the Bank’s portfolio that are helping to institutionalize government and by supporting new cross-cutting interventions that can increase transparency in the management of public resources and compliance with laws and standards.

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72 According to 2002 MECOVI survey data the poverty rate edged up from 53.5% to 54.8% in the valley region and dropped from 53.8% to 47.7% in the plains region.
b. Support competitiveness and sustainable development of the private sector while protecting Bolivia’s environment and natural resources, through current and new operations that expedite competitiveness policy coordination and implementation, create spaces for public-private sector interface and partnerships, and reduce barriers to productive development of small and medium-sized export businesses.

c. Enhance efficiency and equity in basic social services delivery, with an emphasis on execution of education, health, and sanitation projects in the portfolio to expand the reach of these services and improve their quality and cultural relevance; and strengthen municipal government management capacity, particularly in cities.

4.7 From an operational standpoint the Bank’s active projects in Bolivia are a valuable resource with which to pursue the identified strategy focuses and objectives, given the volume of undisbursed proceeds of the respective loans and these operations’ tie-in to short- and medium-range goals. As of 30 April, the US$496.5 million awaiting disbursement far exceeds the US$350 million that Bolivia stands to obtain from FSO allocations for operations approvals in the 2004-2007 period.\footnote{Based on the document approved by Management’s Coordination Committee (CC-5928), Bolivia would have US$177.3 million in new allocations for the 2004-2005 period. Not counting future reallocations, a simple extrapolation would indicate that the resources for the 2004-2007 period could come to US$354.6 million. The possibility that the IDB might make a blend of FSO and Ordinary Capital financing available to Bolivia in the coming years will be contingent upon the country’s fiscal sustainability. In addition, Bolivia has US$32.9 million from the 2002-2003 two-year allotment, to approve previously identified operations, which expires on 30 June 2004.}

4.8 For the short-range goals, the reference point for the Bank’s participation is the government’s arrangement with the IMF, with its three-pronged fiscal, monetary, and financial-corporate focus. On the fiscal side the authorities have pledged to contain the mounting costs of the pay-as-you-go pension system. To further that policy objective the Bank approved a sector loan in 2003 (BO-0213, Support for fiscal sustainability) to help improve the administration of this expenditure line and curb fraud. Other Bank initiatives in the fiscal arena are its loans to improve operating efficiency and transparency of the Bolivian Internal Revenue Service and the Customs Administration.

4.9 A second target for support in the short term is the government’s plan to address problems in the banking and corporate sector. Engaged in that endeavor are the World Bank, through its recently approved loan for bank restructuring, and the CAF and the IDB which are assisting on the corporate restructuring side. At the moment the Bank has no active operations in this area; it would provide support by way of operations to be developed in the course of the year.

4.10 The third focus of Bank assistance in the short range is to identify social-sector initiatives that can appreciably enhance quality of life in segments of the population hardest hit by the crisis. There is some (albeit limited) potential in the Bank’s
portfolio to redirect the proceeds of loans whose commitment and/or disbursement
time limits are about to expire toward operations that can quickly improve quality
of life in regions where the crisis has taken the greatest toll. According to analyses
done with the government, roughly US$30 million in funding—6% of the
undisbursed total—could be thus shifted. Discussions have been under way with the
government since December 2003 on redirecting these resources to fund
community projects in high-poverty districts.

4.11 To help Bolivia advance toward its poverty reduction goals, funding to improve
delivery of essential social services—sanitation, education, and health—dominates
the Bank’s lending. The Bank will be supplying 31.1% of total international
cooperation funding targeted to sanitation in the next three years, 27.7% of
education resources, and 22.9% of health service funding. Accordingly, a first
important step in implementing the BCS is to underscore in the country dialogue
the need to improve the execution of active projects, to stay on track toward social-
indicator targets.

4.12 There are major infrastructure initiatives in the program as well, notably support for
integration infrastructure and rural technical assistance and irrigation. However, the
frame of reference for these initiatives is neither as clear nor as (relatively) uniform
as the framework developed in the country for social-sector issues, which was the
fruit of collective efforts backed by the entire international cooperation community,
particularly through the HIPC Initiative. As the Bank noted at the time
(GN-1970-20), the BPRS offered no such framework for pro-growth initiatives.
Other agencies74 have remarked on the scant emphasis in the HIPC Initiative’s
design and implementation on such critical questions as market access, investment
climate, and infrastructure for the HIPC countries’ advancement and sustainability
prospects. This has implications for the Bank’s work specifically and, generally, for
the use of public resources targeted to the different sectors to enhance the Bolivian
economy’s production potential.

4.13 The BCS premise in this regard is that the strategic value of new operations
developed and approved during this new programming cycle will come from
working with the country to find ways of coordinating interventions to enhance
competitiveness and productivity. The fact that Bolivia is participating in the IDB’s
recently launched business climate initiative will help ensure a prominent place for
these issues in the country dialogue and in discussions with the other international
cooperation agencies. As for the social sectors, the strategic value of new operations
will lie in the improvements they bring about in equity and efficiency of essential
services in Bolivian cities.

4.14 As a first stage in putting these principles into action, the Bank has worked with the
authorities on a lending program for 2004. This project identification effort, which
took into account what is workable in the present economic, political, and social

74 See World Bank (2003).
climate, will continue to be a focal point of the dialogue over the span of this strategy. In the government’s and Bank’s assessment, a program beyond 2004 cannot be formulated until the outcomes of the gas referendum and Constituent Assembly are known, and what matters most in terms of the Bank’s work with Bolivia in these circumstances is that the Bank remain open to designing initiatives that can be viable in this time of transition for the country.

4.15 The lending program identified is consistent with the approaches devised for integrated implementation of the new strategy package to pursue the IDB’s core objectives and priority areas (see Annex I). The strategy matrix at the start of this paper and Annexes I, II, and III summarize the instruments the Bank will bring to bear to that end.

4.16 Based on the country’s political and institutional situation and in concert with the authorities, an operations program has been identified for 2004 (Annex I) that envisages the approval of five loans totaling US$80.5 million. Five additional operations totaling US$65 million have been identified and are slated for approval in 2005. The materialization of these operations will depend on the executing agencies’ management capacity, on clear, attainable objectives being set for operations that have an institutional focus, and on the degree of progress in their preparation during the next few months. Whether the Bank will be able to sharpen its focus over the period of the strategy will hinge on effective donor coordination and improvements in institutional stability, to make sure that once a project is approved there will be political backing to see it through. In terms of net capital inflows, the strategy gives priority to portfolio trimming and enhancement. This, coupled with the allocation of resources from the Bank’s annual HIPC debt relief, should keep net flows positive.\textsuperscript{75}

1. Improve management and transparency of the State

4.17 The institutional factor is a central pillar of the BPRS for successful implementation of public investment policies. The marginal effectiveness of the country’s public institutions and their remoteness from the citizenry are holding up economic and social gains; the fraying political and institutional environment in the last two years has compounded the problem. These failings constitute the stiffest obstacle to surmount in any sphere of government operations targeted for Bank support, be it to help boost growth, stabilize the macroeconomy, enhance equity and inclusion, etc. In the present circumstances this also is one of the most vulnerable and riskiest areas when it comes to launching major initiatives.

4.18 In light of Bolivia’s economic challenges the Bank’s near-term priority in furthering reform of the State will be to solidify the gains achieved in operations

\textsuperscript{75} Net IDB loan flows could reach US$22 million in 2004. If disbursements return to precrisis levels in 2005, net flows could reach US$30 million. This would represent 3.0% and 3.6%, respectively, of expected official development aid flows to Bolivia in those years, which are estimated to exceed US$750 million per year.
that are strengthening agencies directly involved with fiscal inflows and outflows and making them more transparent, with a special focus on taxes and pensions. On the expenditure management and effectiveness side the Bank will continue to help improve municipal government performance and increase transparency in municipal financial management. The new operations will assist in moves to instill more transparent, credible financial management in the public sector and capitalize on the gains posted thus far and lessons learned from the Bank’s work in the justice sector.

4.19 Support for Bolivia’s fiscal institutions will be delivered through operations now in progress that are helping to improve tax administration, strengthen financial management, and make for more transparent and efficient pension expenditure management, in order to remedy institutional weaknesses that open the door to corruption. To help improve fiscal management the Bank is supporting a program to modernize the country’s Internal Revenue Service and Customs Administration. This support has been extended to include strengthening of the Finance Ministry to be able to monitor municipal debt levels and the implementation of municipal debt refinancing programs. In the pension sphere the prime focus of Bank support will be increasing transparency in pension payment management and the close-off of sources of fraud and corruption that are undermining the system, in order to contain the disproportionate increase in this expenditure line. Meanwhile, the Bank in coordination with the World Bank is helping Bolivia institute information systems as decision-making inputs and a tool for more efficient and effective tax compliance tracking, budgeting, and public expenditure monitoring. The focus of the World Bank’s support is to see these systems adopted in central government agencies; the IDB is working with the municipal segment.

4.20 A proposed new IDB operation to help improve financial management and enhance transparency in the process is support for the National Transparency Program, to assist in the implementation of the action plan that comes out of the Country Financial Accountability Assessment being conducted by the IDB with the World Bank.

4.21 In the area of decentralization, the BCS will continue supporting improvements in municipal institutions and finances by way of the Bank’s local development and fiscal responsibility loan. This will foster in-country dialogue on fiscal relations and the apportionment of responsibilities among the various levels of government and provide new infrastructure for more transparent financial management. Building on the experience gained in executing projects and programs with a local government

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76 For the short term the focus of Bank support will be the execution of projects that are pursuing these aims: institutional strengthening of the Internal Revenue Service (1043/SF-BO); customs reform and modernization program (1056/SF-BO); local development and fiscal responsibility (1075/SF-BO), and the sector program to support fiscal sustainability (1127/SF-BO and 1128/SF-BO).

77 Modernization of municipal financial management (1091/SF-BO).
focus, the scope of this operation will be broadened to add activities designed to directly bolster municipal government capacity.

4.22 As for the **judicial branch**, the justice system’s inefficient and opaque procedures and proceedings have created a very poor perception of legal certainty in Bolivia. Because transparent and predictable administration of justice is fundamental for business operations, secure property rights, and the settlement of disputes of all kinds, the Bank sees this as a priority for the country to which it could contribute. In particular, the lessons learned and experience acquired in the current Bank-funded operation to improve access to justice point up the huge potential for deepening and expanding **community-based justice** approaches. Since the prospect of a Constituent Assembly is creating uncertainty as to upcoming decisions that could alter executive, legislative, and judicial branch powers and responsibilities, **the Bank will supply technical assistance and analytical work** to underpin discussions and decisions on this and other important issues in the context of the Assembly. Once the country has charted its strategy the Bank proposes to work on other components of justice sector reform.

4.23 One crucial element in management and transparency of the State and governance in Bolivia is the **development of institutions for a multicultural society**. Though the country has made huge strides in addressing this concern in different quarters, particularly the social sectors, it would need to encompass other public policy spheres as well. The Bank gained considerable experience in creating spaces for dialogue with indigenous and aboriginal peoples when the Indigenous Law was being developed. The BCS will build on those results through **technical cooperation operations or studies**, to give the authorities information and approaches to bring this issue more to the fore in the BPRS’s operational side in areas such as natural resources, participation, etc.

2. Support competitiveness and sustainable development of the private sector

4.24 Bolivia needs to boost its growth rate and its economy’s income-generating capacity. Only with prolonged, steady, robust economic growth will it be able to balance sustainability challenges and the imperative of raising the income of its people. The country still is at a very early stage of formulating, coordinating, and articulating productivity and pro-investment policies and programs; this mutes the

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78 In 1994, following a landmark pact among Bolivian political parties, the nation’s Political Constitution was amended by Law 1585, which introduced a number of changes in the country’s political and judicial systems. Specifically, the rewrites laid the foundation for a new justice organization model, creating various agencies with specialized mandates. One of these, the Constitutional Court, was tasked with ensuring the constitutionality of laws and the primacy of the Constitution. Another, the Judiciary Council, will administer judicial branch financial, economic, and human resources. The mission of the Ombudsman, established by the same legislation, is to protect basic individual rights and guarantees in connection with administrative acts of government bodies and to protect, promote, and disseminate human rights. A new Code of Criminal Procedure (NCP, 1999) entered into force in mid-2001. A new Code of Civil Procedure is being drafted at this writing.
effectiveness of sector-specific interventions backed by international cooperation agencies which would enhance competitiveness in one or more domains (road infrastructure, credit, rural infrastructure, etc.). The tight cross-sectoral coordination that is vital in a country with such a fragmented geography and such regional variances in production potential is not in evidence in Bolivia at this time.

4.25 The BCS calls for scaled-up Bank involvement in competitiveness issues, with a greater emphasis on developing new approaches and methodologies to spur the competitive development of private enterprise and, in particular, of small and medium-sized enterprises (SMEs) in sectors with export potential. Innovation lending features prominently in the proposed program; it will emphasize an IDB corporate focus with the country, developing synergies with MIF and IIC activities. Likewise, the Bank will capture synergies with other agencies, especially the World Bank and CAF, to provide mechanisms to mend the country’s fraying banking system and production fabric. A central consideration for the Bank in this country strategy will be to preserve already-consummated investments that are helping to enhance Bolivia’s competitiveness profile and to increase returns on projects now in progress, especially in rural parts of the country.

4.26 A common thread running through the BCS activities is an effort to remedy constraints that are keeping Bolivia’s private sector from making more of a contribution to the nation’s economic prosperity. The Bank will provide support for public-private sector coordination mechanisms to better identify bottlenecks that are inhibiting the growth of export supply chains and come up with arrangements to erase these obstacles. Because a larger export industry is so critical to the Bolivian economy, particular attention will be paid to issues of market access and preparing the country for trade negotiations. With this as the backdrop, work will continue on production infrastructure improvements, with an emphasis on road infrastructure and electrification, and on furthering the corporate restructuring process.

4.27 One operation proposed in the BCS is expressly designed to support the Productivity and Competitiveness System (SBPC). Its aim is to solidify that institutional apparatus created by the government to coordinate public-private competitiveness initiatives, remove institutional roadblocks to SME development, and support supply chains that offer export potential. The loan would assist in the reconfiguration of SMEs that could qualify for the IIC Small Loans Program. An important input for that operation is the MIF initiative supporting modernization of the business registry service, which includes funding to develop a strategy to streamline requirements and create a one-stop service to set up a business. Simultaneous action on all these fronts could spur development of competitive, export-oriented medium-sized businesses, a sector that today is virtually nonexistent in Bolivia. Another aim is to promote a Bolivian government-led mechanism to coordinate international cooperation assistance in the sector. The SBPC’s potential to serve as focal point for orienting external assistance for competitiveness initiatives has figured in the Bank’s discussions with other cooperation agencies, specifically DFID (United Kingdom), SECO (Switzerland),
ASDI (Sweden), DGIS (the Netherlands), DANIDA (Denmark), and USAID (the United States).

4.28 Productivity and competitiveness are key to sustainable poverty reduction and more inclusive growth with equity. Rural agricultural production is the first link in many supply chains with export potential in Bolivia. The three most obvious roadblocks to rural microenterprise and small-business productivity improvements are tenuous property rights to land—and hence meager capital investment and low-quality inputs; the shortage of energy inputs, and an inefficient road system. A compounding factor is that business owners are ill equipped to conceive, develop, and implement business plans integrated into a market-viable supply chain. These serious deficiencies and the scant inroads made against rural poverty are all the more striking given the volumes of funding that have been rurally targeted.79

4.29 The Bank can bring added value to this sphere in several ways. First, it can focus on the execution of operations already approved which are addressing some of these weak points, particularly land regularization and titling, financing for productive rural projects that can give small producers an entrée into domestic and international markets, technology transfer and agricultural health programs to improve product quality, and irrigation. Second, the Bank can approve a technical cooperation operation and an innovation loan for rural infrastructure, in particular rural roads, to develop a methodology for work with municipalities and serve as a base from which to marshal more international cooperation resources toward this subsector. Third, agreement has been reached with the government on a technical cooperation project to develop a rural electrification master plan that provides the necessary elements for the design of a rural electrification program. Once the government has assessed and adopted the master plan a meeting will be organized with other donors to channel their resources toward the sector via mechanisms established in the plan. Only with other donors’ backing for the plan’s implementation could the IDB operation bring a measure of added value, given this sector’s heavy financing requirements. Lastly, in light of the characteristics of donors’ participation in rural areas, the Bank will foster dialogue with the government and international cooperation providers about rural development coordination mechanisms, which could draw on experiences elsewhere in the region.80

79 Between 1998 and 2002, 17% of international cooperation funding (US$480 million) went to rural development programs and projects, surpassing the transportation sector (US$469 million), institution-strengthening (US$414 million), and education (US$243 million). More than US$500 million will be rurally targeted in the coming years.

80 For instance, the Regional Unit for Technical Assistance (RUTA) venture, an initiative of the Central American governments and a group of bilateral and multilateral organizations (IDB, World Bank, DFID, UNDP, IFAD, FAO, IICA, IFPRI) to further sustainable agricultural development in the region. RUTA provides analytical support for strategy formulation and assistance with project implementation and supervision, and has become a space for donor collaboration.
4.30 The transportation sector is one competitiveness driver in which the Bank’s longstanding support will continue to figure prominently. The IDB, the CAF, and the World Bank together supply 90% of financing flows to that sector. Seventeen percent of the undisbursed pool of external funding is for transportation-related operations. These ventures will increase Bolivia’s physical integration with its neighbors, notably via the Santa Cruz-Puerto Suárez integration corridor and technical cooperation for an economic and environmental impact assessment of the North Corridor—both of which are part of priority IIRSA corridors and would link Bolivia with Brazil. An aim of future Bank-funded transportation operations will be to preserve the present asset base and help consolidate the sector, with priority to projects and other actions that can improve Bolivia’s links to the rest of the world. Two specific initiatives proposed to that end are the northern corridor road program and technical cooperation operations on airport security.

4.31 Helping to bolster the Bank’s emphasis on production infrastructure will be its Private Sector Department (PRI), which will continue working with Bolivia on its current telecommunications and energy projects. If conditions are right PRI also may head up, with the CAF, the electric transmission line privatization operation.

4.32 In its present economic and social climate Bolivia needs swift action on the competitiveness front to halt the deterioration in bank and corporate finances. The bank recapitalization project being developed by the World Bank is necessary but not sufficient unless it goes hand in hand with corporate restructuring. The IDB’s involvement will take the form of an innovation loan for corporate restructuring to expedite this business reconfiguration process and round out cooperation agencies’ work in this sector so as to achieve the desired financial stability aims.

4.33 Another key facet of this action focus is market access and preparation of Bolivia for trade talks. Today the country is engaged in a series of trade negotiations, mainly on Andean integration, MERCOSUR, creation of the Free Trade Area of the Americas (FTAA), and the new multilateral negotiating round. To better articulate its interests Bolivia will need to strive to improve its strategy formulation mechanisms and bolster its alternatives assessment capabilities. The Bank will deploy its menu of products (loans, technical cooperation) to assist the country in this challenging task.

3. Enhance efficiency and equity of basic social services delivery

4.34 Given the social-service gaps discussed in the previous sections, if Bolivia is to move toward the MDGs in the next few years it would need to make basic social services available to more rural residents, build capacity in city governments to manage the mounting demands of swelling populations, and build gender and ethnic dimensions (as cross-cutting concerns) into public policies.

4.35 The Bank can influence sector outcomes by way of the distribution of cooperation assistance and resources in its active projects, helping Bolivia rise to its education, health, sanitation, and urban development challenges and acting on cross-cutting
issues—municipal strengthening, gender equity, and cultural relevance. Through the execution of its current projects the Bank can continue furthering the country’s goal of attaining the MDGs in basic sanitation, education, and health—sectors in which the IDB is slated to furnish 32%, 28%, and 22%, respectively, of planned international cooperation funding over the next three years. The aim for basic sanitation is to ensure that service providers have the minimum requisite capacity to operate and maintain the systems and bring in enough revenue to honor their financial obligations. The Bank will continue to coordinate with prominent donor agencies in this sphere. In its health sector work the Bank will further ongoing efforts to control and prevent Chagas disease, especially via support for implementation of the multiyear Chagas Disease Diagnostic and Treatment Plan (part of Millennium Development Target 6). The goal of the recently approved education operation is to improve the quality of primary education, achieve universal primary enrollment, and raise the percentage of the school-age population that completes the eight-year primary cycle (Millennium Target 2). That project’s core objective is to deepen decentralization, strengthening local autonomy and management capacity, as a way of reaching the education goals faster.

4.36 For urban development the BCS is proposing a spatial approach that would see a set of initiatives channeled to a given region and experiments (potentially replicable in other Bolivian cities) with municipal institution-strengthening approaches to improve basic services delivery. The highlands region will be the prime target of a package of new operations being proposed to this end. The central focus of the La Paz city-center revitalization project is to tackle the complex issue of inner-city poverty as part of a series of moves on the urban planning, environmental, economic, and social fronts to reverse the deterioration of La Paz’s city center. The plan is to make economic activities in the city core more productive and provide public services and public spaces that will benefit low-income groups who live and/or work in the city center. Complementing that operation will be a program to foster and develop initiatives to improve living standards of communities in vulnerable areas (PROPAIS), which would work to close basic urban and social infrastructure gaps following priorities set by the communities themselves.

4.37 As for social protection, through studies slated for support the Bank will help devise institutional machinery and programs to cushion the impact of the economic crisis on the most vulnerable segments of Bolivian society. The most important component of interventions in this sphere, given its potential to extend the reach of social services and also raise incomes, is the BCS emphasis on initiatives that will produce more structural improvements in security for the poor. The accent will be on the legal certainty of the chief assets of the urban and rural poor (housing and land) and building a gender equity dimension into such initiatives. A land regularization and titling program is already under way. A proposed new operation would support implementation of the Law Governing Urban Property Rights which affords greater asset security for the poor and offers significant potential for housing sector development.
C. Risks

4.38 The most prominent risks in the setting in which the Bank would pursue the BCS have to do with the fragile political climate. Though the institutions of democracy were respected during the October 2003 events, the Mesa administration is contending with multiple demands from the Bolivian people and unrealistic expectations as to how quickly the country can be lifted out of crisis. If this were to trigger a sudden change in the political environment, with severe breaks in governance and a deeper economic crisis, the strategy might not be workable.

4.39 The macroeconomic accounts are a second potentially serious risk driver. Delays and uncertainty about the use of gas reserves could mean a permanent loss of markets for Bolivian gas, which would immediately create an unsustainable fiscal scenario. Because there is little if any flexibility in government spending, in the short term this would mean cuts in investment expenditure and higher deficit financing requirements; in the medium term it would make it far more difficult to sustain the gains achieved. Another real concern is that any deterioration in the fiscal picture could further shake the country’s already fragile financial system.

4.40 The IDB is a leading contributor to Bolivia’s development efforts, but the impacts it achieves are the result of collective efforts with other actors and hinge, above all, on the government’s ability to articulate those actors’ activities around clearly established priorities. International-cooperation coordination failures in Bolivia could mute the impact of the Bank’s activities. The atomization of international assistance tends to fuel atomization in the Bolivian public administration. This is not a new risk, but it is heightened at the current juncture where the government’s coordination capabilities are significantly diminished.

4.41 By way of the new operations envisaged the BCS proposes to sharpen the Bank’s focus on competitiveness drivers. However, the viability of that stepped-up effort will very much depend on changes in the environment and the development of effective donor coordination arrangements.

4.42 The plans to improve the execution of Bank projects assume that performance agreements worked out with the authorities are carried through. However, since this entails a commitment on the government’s part to reduce political intrusions into project execution there is a risk associated with any weakening of the authorities’ ability to stay this course in the event of a significant deterioration in the political climate.

4.43 These risks were carefully addressed in developing the BCS, which for that reason has been conceived as a process that is flexible enough to adapt to sharply shifting conditions. Actions proposed in the strategy would minimize risk drivers in spheres where the Bank can have some influence. There will be greater attention in project design to partnering with other donors to lower the fiscal cost of some interventions and enable the government to concentrate on medium-range goals. The Bank has had good experience with cofinancing to promote public policies and
lower the fiscal cost of infrastructure development. Along this same line the BCS proposes to help the government **develop sector-specific strategies and implementation approaches** to which other donors could subscribe, with a view to replicating in other sectors the experience gained in basic sanitation projects. Lastly, in both its current and new operations the Bank will increase **beneficiary outreach**, an approach that should make for more stable, sustainable interventions.

4.44 One important instrument to help manage the aforementioned risks will be technical cooperation operations devised to assess municipal government project implementation mechanisms, improve transparency and public management, and help the government draw up sector strategies.

**D. Donor coordination**

4.45 Given the risks discussed above, external multilateral and bilateral funding will likely again become Bolivia’s leading source of external finance as well as the most stable and fiscally viable. This, in combination with the state of the country’s institutions and its political climate, makes it more crucial than ever to make optimum use of these resources. From a process standpoint the BCS proposes to bolster the Bolivia Country Office’s role as the Bank’s focal point for donor dialogue matters, to streamline the Bank’s dealings with other agencies and make for a more effective working relationship.

4.46 On the operations side, the Country Office will continue to meet with donors to discuss the status of projects in each sector, exchange views, and map out future commitments. The object is to scale up coordination and harmonization efforts to counter the observed deterioration in public sector institutions. To that end a second stage of the study “International Cooperation Resources 2003-2006” will be discussed with the World Bank, particularly to explore short-term prospects for assembling a more systemic international cooperation portfolio in Bolivia as well as opportunities in the medium term based on each agency’s proposed aid agendas.

4.47 To sharpen the medium- and long-range focus the Bank will foster discussion between donors and the government to identify impediments to a dialogue centered on programs and outcomes rather than on projects. The findings of the Country Financial Accountability Assessment will be one topic on the agenda; the parties will explore the use of the new products the Bank has developed to promote outcome monitoring.

**E. Monitoring of the country strategy**

4.48 As it tracks the country strategy’s implementation the IDB will coordinate closely with the government, especially with the Office of the Deputy Minister for Public Investment and External Finance (VIPFE). The strategy will be working with country outcome metrics to measure progress toward the country’s objectives in each area of influence of the Bank, and mid-term metrics relating to projects the
Bank proposes to help attain the government’s goals and to processes to enhance donor coordination.

4.49 The country metrics provide yardsticks against which to measure the government’s progress on its most pressing priorities—macroeconomic stability, the gas referendum, and convening of a Constituent Assembly. The BPRS targets constitute a second set of metrics. Indicators of the Bank’s influence will be the mid-term outcomes proposed for each project, portfolio performance, and qualitative and quantitative improvements in IDB coordination with other agencies.

4.50 Bolivia and the Bank will periodically review progress toward the strategy’s objectives by way of quarterly and annual portfolio reviews, quarterly reviews of performance agreements, annual updates of the operations program, reviews of the IMF agreement (country-IMF), and BPRS monitoring reports (country).
V. COUNTRY DIALOGUE AGENDA

5.1 This is a time of critical transition for Bolivia, when its already fragile macroeconomy and social confrontations could worsen and prompt a remapping of the Bank’s country strategy priorities. The proposed BCS approach affords a frame of reference for support to the country during the present chapter of political uncertainty until the dialogue on BPRS priorities, the gas referendum, and the Constituent Assembly is completed. The strategy thus sets out an IDB operations program for 2004 and identifies priority operations for 2005, leaving open for discussion the rest of the current constitutional term, i.e., until 2007. As this uncertainty is dispelled a more active dialogue can unfold on the operations program for the coming years, regarding the proposed focuses and their alignment with agreements that come out of the 2003 National Dialogue.

5.2 One key issue to be addressed in the dialogue is the need to continue sharpening the Bank’s focus to support sustained improvements in the climate for development of small and medium-sized export businesses, by selecting interventions that will help enhance Bolivia’s competitiveness profile and make it a fuller partner in the global marketplace.

5.3 Portfolio execution is another crucial piece of the dialogue, given its strategic importance. The Bank’s active operations are geared to supporting reforms and investments with medium- to long-range goals that Bolivia and the rest of the international cooperation community have prioritized. The numerous activities that the Country Office has under way to improve execution will be front and center in discussions with the authorities. A prime example is the work being done to assess institutional capacity in each project to decide whether institution-strengthening measures are called for or implementation arrangements need adjusting. The Bank and the government also will monitor performance agreements between executing agencies and the Finance Ministry.

5.4 Another focus of work with the authorities will be how to strengthen the government’s coordination role. Specifically, the Bank will continue talks with senior officials on ways of bolstering the VIPFE’s authority and capacity to assess executing agency performance by reference to verifiable, quantifiable outcomes, in a framework of operational transparency and accountability. Under this approach the VIPFE would be the focal point for BCS monitoring. One requirement to help Bolivia shift from a project-centered focus toward a focus on reforms to orient external funding will be a much more systematic collective effort to identify the cost of the reforms, metrics, and the distribution of responsibilities within the Bolivian State. Because of the nature of this facet of the dialogue it will be important to work more closely with other cooperation agencies which, in concert with the IDB, are supporting sector reforms.

5.5 Workshop program: The Bank and the authorities will discuss whether a workshop program should be developed for 2004, building on the experience gained in the
first such events held in 2002 and 2003. This initiative will continue to provide a valuable forum for participants to come up with a common diagnostic assessment of some sector-specific problems and for the IDB Group to coordinate its work in pursuit of the Bank’s action plan for private sector development.
# 2004-2005 IDB Group Operations Program

(Millions of U.S. dollars)

<table>
<thead>
<tr>
<th>Projects</th>
<th>Objectives</th>
<th>Linkage with Bank strategies and objectives of sustainable economic growth and poverty reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>BO-0220</td>
<td>Innovation program to support the competitiveness system</td>
<td>Competitiveness strategy (institutions for the markets). Supports the objective of increasing cooperation between the public and private sectors to boost SME competitiveness through the development of production chains.</td>
</tr>
<tr>
<td></td>
<td>Strengthen public and private institutions that support competitiveness, eliminate obstacles to the development of small and medium-sized enterprises (SMEs), and support the development of production chains in sectors prioritized by the SBPC.</td>
<td></td>
</tr>
<tr>
<td>BO-L1001</td>
<td>Innovation program for business restructuring</td>
<td>Competitiveness strategy (financial and capital resources). Supports the objective of improving business access to financial resources, with emphasis on the more vulnerable urban areas.</td>
</tr>
<tr>
<td></td>
<td>Support financial stability and business reactivation and minimize the risk of a collapse in the medium-sized business and microenterprise sectors</td>
<td></td>
</tr>
<tr>
<td>BO-0200</td>
<td>Northern Corridor highway program—Phase 1</td>
<td>Environment strategy. In the environment and regional integration areas, supports actions to mitigate the environmental impact of road infrastructure.</td>
</tr>
<tr>
<td></td>
<td>Ensure that the highway is fully functional and mitigate environmental impact</td>
<td></td>
</tr>
<tr>
<td>BO-0224</td>
<td>Innovation program for rural electrification</td>
<td>Competitiveness strategy (infrastructure services). Improves access of the poor to basic infrastructure services.</td>
</tr>
<tr>
<td></td>
<td>Support the implementation of the rural development master plan in cooperation with other donors</td>
<td></td>
</tr>
<tr>
<td>BO-0216</td>
<td>Revitalization of downtown La Paz</td>
<td>Social development strategy (provide integrated services with a territorial focus). Improves basic infrastructure services for the poorest urban communities.</td>
</tr>
<tr>
<td></td>
<td>Reverse the process of deterioration in the city of La Paz, making economic activities and the delivery of public services more efficient</td>
<td></td>
</tr>
<tr>
<td>BO-0210</td>
<td>Rural infrastructure program</td>
<td>Integration strategy (Promotion of regional infrastructure). Ensures that the expansion of regional infrastructure also benefits the poorest groups.</td>
</tr>
<tr>
<td></td>
<td>Improve the connection of rural areas with market services and social services</td>
<td></td>
</tr>
<tr>
<td>BO-SN</td>
<td>National irrigation plan</td>
<td>Competitiveness strategy (infrastructure services). Improves access of the poor to basic infrastructure services.</td>
</tr>
<tr>
<td></td>
<td>Expand the national irrigation program (PRONAR) based on lessons learned in the operation about to be completed, coordinating actions with other donors interested in the sector</td>
<td></td>
</tr>
<tr>
<td>BO-L1003</td>
<td>National property rights plan</td>
<td>Competitiveness strategy (financial and capital resources). Improves property registry and guarantee system and titling in urban areas, complementing similar actions in rural areas.</td>
</tr>
<tr>
<td></td>
<td>Support implementation of regulations on the housing sector, strengthen the municipal tax base, improve information systems, and enhance the safety and protection of assets belonging to the poor</td>
<td></td>
</tr>
<tr>
<td>BO-0207</td>
<td>National transparency program</td>
<td>Modernization of the State strategy (public administration). More transparency in the workings of government.</td>
</tr>
<tr>
<td></td>
<td>Improve the efficiency and transparency of financial management by implementing the CFAA action plan</td>
<td></td>
</tr>
<tr>
<td>BO-0209</td>
<td>Support for the justice sector</td>
<td>Modernization of the State strategy (rule of law). Reduces transaction costs, modernizes administration of justice, and provides effective access to the poor.</td>
</tr>
<tr>
<td></td>
<td>Support the development of community-based justice</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>80.5</strong></td>
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<tr>
<td></td>
<td><strong>65.0</strong></td>
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Nonreimbursable Technical Cooperation Operations
(In U.S. dollars)

<table>
<thead>
<tr>
<th>FSO resources</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATN/SF-8612-BO Emergency support for floods in Trinidad (approved)</td>
<td>50,000</td>
</tr>
<tr>
<td>BO- Rural roads</td>
<td>150,000</td>
</tr>
<tr>
<td>ATN/SF-8652-BO Preparation of program for vulnerable communities (approved)</td>
<td>100,000</td>
</tr>
<tr>
<td>ATN/SF-8619-BO Support for rural electrification plan (approved)</td>
<td>100,000</td>
</tr>
<tr>
<td>BO-T1009 CT/INTRA: Development and management of natural resources</td>
<td>15,000</td>
</tr>
<tr>
<td>BO- Natural disaster prevention (workshops)</td>
<td>15,000</td>
</tr>
<tr>
<td>BO- Diagnostic assessment of investment climate</td>
<td>50,000</td>
</tr>
<tr>
<td>BO-T1007 Transparency in public administration</td>
<td>500,000</td>
</tr>
<tr>
<td>BO- Social inclusion program: Topics for Constituent Assembly</td>
<td>120,000</td>
</tr>
<tr>
<td>TC-02 Technical support for Constituent Assembly</td>
<td>150,000</td>
</tr>
<tr>
<td>BO- CT/INTRA: Study of experiences in risk management. Manizales, Colombia</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total FSO</strong></td>
<td><strong>1,270,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CT FONDOS</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>BO- Free trade agreement negotiations</td>
<td>140,000</td>
</tr>
<tr>
<td>ATN/DO-8681-BO Master electrification plan (approved)</td>
<td>149,800</td>
</tr>
<tr>
<td>BO- Support for water resource strategy</td>
<td>300,000</td>
</tr>
<tr>
<td>BO- Plan to develop the tourism potential of the Cuzco – La Paz circuit</td>
<td>tbd</td>
</tr>
<tr>
<td>BO- Preparation of secondary airport improvement plan</td>
<td>tbd</td>
</tr>
<tr>
<td>BO- Support e-procurement</td>
<td>400,000</td>
</tr>
<tr>
<td><strong>Total CT Fondos</strong></td>
<td><strong>989,800</strong></td>
</tr>
</tbody>
</table>
Nonreimbursable Technical Cooperation Operations  
(In U.S. dollars)

<table>
<thead>
<tr>
<th>MIF Resources</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Priority Program</strong></td>
<td></td>
</tr>
<tr>
<td>TC-02-10-00-0 Strengthening of airport security <em>(approved)</em></td>
<td>500,000</td>
</tr>
<tr>
<td>TC-03-04-00-6 Support for rural connectivity (loan)</td>
<td>500,000</td>
</tr>
<tr>
<td>BO- Application of international accounting and auditing standards</td>
<td>500,000</td>
</tr>
<tr>
<td>TC-02-12-01-0 Venture capital and business development services for Fondo Caisa</td>
<td>3,500,000</td>
</tr>
<tr>
<td>BO-M1001 Deepening of the Bolivian leasing market</td>
<td>1,465,000</td>
</tr>
<tr>
<td><strong>Priority total</strong></td>
<td><strong>6,465,000</strong></td>
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<tr>
<td><strong>Pipeline</strong></td>
<td></td>
</tr>
<tr>
<td>BO- Strengthen remittances as a development tool</td>
<td>tbd</td>
</tr>
<tr>
<td>BO- Promotion of entrepreneurial spirit</td>
<td>1,000,000</td>
</tr>
<tr>
<td>BO- Preparation of investment projects</td>
<td>tbd</td>
</tr>
<tr>
<td><strong>Pipeline total</strong></td>
<td><strong>1,000,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SMALL PROJECTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SP-04 OMED</td>
<td>350,000</td>
</tr>
<tr>
<td>TC-04 OMED</td>
<td>150,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>500,000</strong></td>
</tr>
</tbody>
</table>
**NONLENDING PRODUCTS**

<table>
<thead>
<tr>
<th>Workshops</th>
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</thead>
<tbody>
<tr>
<td>Workshop with parliamentarians</td>
</tr>
<tr>
<td>Transparency in government</td>
</tr>
<tr>
<td>Best practices in natural disaster prevention</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Studies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social inclusion</td>
</tr>
<tr>
<td>Water and sanitation action plan</td>
</tr>
<tr>
<td>Public Expenditure Review (with the World Bank)</td>
</tr>
<tr>
<td>The role of international cooperation in Bolivia—Second phase (with the World Bank)</td>
</tr>
<tr>
<td>Country Financial Accountability Assessment (with the World Bank)</td>
</tr>
</tbody>
</table>
As one way to address the problem of slow implementation of Bank-funded projects in Bolivia the government and the Bank decided to encourage the Finance Ministry and executing agencies to enter into performance agreements, at the cabinet minister and project manager level, setting out each party’s undertakings for effective, efficient, on-schedule execution of the respective project, using a management-by-results approach.

Three features of these performance agreements will be multiyear capital budgets, quarterly monitoring, and annual reviews. Drafting them will require: (i) reference to the institutional diagnostic assessments developed to decide on the need for institution-strengthening activities, which could be paid for using resources of the operation in question; where necessary, a specific category could be created for this and the requisite resources transferred to it; (ii) a review of the project’s implementation arrangements to see if they can be streamlined and made more flexible, including such options as outsourcing execution and/or management; (iii) an depth-review of each project to come up with realistic commitment and disbursement timeframes with the executing agency or agencies and together devise multiyear investment plans and progress and outcome targets to write into the performance agreements, and (iv) if adjustments are made to the project’s implementation, monitoring, or audit arrangements, a review and alignment as needed of the project’s operating regulations.

The Bank and the Bolivian authorities likewise agreed on the need to bolster the authority and capacity of the Office of the Deputy Minister for Public Investment and External Finance (VIPFE) to be able to monitor these agreements, assessing executing agency performance by reference to verifiable, measurable outcomes, in a framework of operational transparency and accountability. In the Bank’s view, the functionality and coordination of the two VIPFE directorates would need to be strengthened to be able to track each operation more closely and effectively. To that end, the sector specialists would take active part in periodic IDB-executing agency meetings to review progress on the agreed schedule, the status of a project’s critical path, whether assumptions are being met, and other factors. Borrowers thus could be given an early warning and, if necessary, adjustments in scheduling and in project execution arrangements could be proposed promptly so each executing agency could deliver on its implementation commitments as scheduled. The sector specialists also should participate in the Country Office’s quarterly portfolio reviews and in annual Headquarters reviews, providing assistance to the borrower.

To draft and secure the signature of a **performance agreement** an executing agency, with support from Bank sector specialists, would be required to:

1. Prepare a multiyear critical path schedule for each project, setting realistic timeframes for commitment and disbursement of funds.

2. Decide, by reference to the institutional assessment done and other pertinent factors, whether institution-strengthening and/or different implementation arrangements are needed to adhere to the schedule.
3. Where applicable, update a project’s operating regulations based on the Model Operating Regulations prepared by the Country Office, to adapt the project regulations to the requirements of the model performance agreement agreed upon by the Bank and the VIPFE.

The anticipated completion date for the above actions is end of May 2004. The performance agreements are to have been signed by the end of February.
DEVELOPING THE COUNTRY STRATEGY: DISCUSSIONS AND CONSULTATIONS

From an institutional standpoint the Bank has been working harder to extract lessons from its work with Bolivia on both the operations and strategy sides. Activities planned in the country strategy will help systematize the current knowledge base about Bolivia in the Bank and in other agencies, tap the central departments and PRI to enrich RE1’s country diagnostic and vision, improve coordination with other international cooperation agencies, and add to the ranks of interlocutors in the dialogue in Bolivia.

In-house initiatives to equip the Bank team for the country dialogue included a workshop to discuss Bolivia’s development challenges, which assembled specialists from RE1 and the other regional departments, SDS, DPP, PRI, and the World Bank and received support from the Bank’s Office of Learning and the Research Department. In order to make optimum use of Bank resources, a research matrix was developed early in 2002 to identify studies conducted by a variety of institutions on the social, economic, and institutional dimensions of Bolivian development. Out of these reviews, discussions with other donors, and the aforementioned workshop came a decision on topics on which the Bank should commission research. The matrix can be viewed on the OD1 web page: http://re1/N-od1/documentos/MM_BO_ESTUDIOS.doc. Guidelines also were developed for the preparation of sector notes on transportation, the financial sector, business development, international trade, institutional development, water and sanitation, rural development, land, education, health, housing, and vulnerable groups. The selected research topics were public spending, poverty and geography, fiscal sustainability, and donor coordination. Work was done on a diagnostic assessment of private sector development challenges, with SDS, the IIC, PRI, the MIF, and RE1 participating. That report was presented to the Private Sector Committee; its recommendations were built into the operations programming and identification process for this period.

It was agreed with the authorities that discussions at consultation workshops would be the underpinning of the Bank’s country strategy development exercise. Accordingly, a program of workshops was organized to ascertain the views of civil society, donor, and government representatives about desired actions regarding transportation, the financial sector, land distribution and land titling, and water and sanitation. By eliciting views and visions from different Bolivian stakeholders and providing a space for discussion of targets and what will be needed to achieve them, these gatherings provided invaluable input for the government and to the IDB to identify new focuses for its support.

In coordination with the World Bank and the IMF the Bank produced papers on pensions and a public expenditure review. These research products were inputs for the review of the Bolivia Poverty Reduction Strategy (BPRS), groundwork for the Consultative Group, and the IDB’s and World Bank’s strategies for their work with Bolivia.

Consultants engaged by the Bank analyzed its portfolio’s alignment and contribution to the Millennium Development Goals and reviewed the Bank’s experience in Bolivia from 1997 to 2002 to extract lessons that could guide the institution’s future activities in that country. For the latter purpose a detailed analysis was done of a significant sample of papers about Bolivia
produced by the IDB and other organizations, in-depth interviews were held in Bolivia and in Washington with more than 70 people who have direct knowledge of these matters (see list below), and the analysts reviewed the findings of a number of focus groups involving IDB and other multilateral agency staffers, academics, and Bolivian government officials.

**Persons interviewed**

-Aguilá, Asunción. IDB
-Aguilar P., Juan Carlos. Strategy Advisors for Government Reform (SAXgr)
-Albertos, Carmen. IDB
-Andersen, Lycke. Universidad Católica Boliviana
-Antezaña, Oscar. Department for International Development, United Kingdom
-Aronson, Bernard. Former Assistant Secretary of State for Latin America, U.S. Department of State
-Babbitt, Hattie. Former Administrator, USAID
-Bacarreza, Victor. Office of the Deputy Minister for Public Investment and External Finance (VIPFE)
-Barja, Gover. Universidad Católica Boliviana
-Batkin, Alan. Vice Chairman, Kissinger and Associates, New York
-Bianchi, Andrés. Ambassador of Chile to the United States of America
-Bickersteth, Sam. Head of Development Cooperation, Department for International Development, United Kingdom
-Birdsall, Nancy. President, Center for Global Development
-Bojorquez, Ana Mercedes. Vice President, CAF, Caracas
-Calvo, Sara. World Bank
-Contreras, Manuel. IDB
-Cuevas Argote, Javier. Confederación de Empresarios Privados Bolivianos
-Danino, Roberto. Ambassador of Peru to the United States of America
-De Ferranti, David. Vice President, World Bank
-De la Torre, Augusto. World Bank
-Einaudi, Luigi. Assistant Secretary General, OAS
-Fernández Aráoz, Hugo. Unión Nacional de Instituciones para el Trabajo de Acción Social (UNITAS)
-Fishlow, Albert. Columbia University
-Gallagher, Lacey. Credit Suisse First Boston
-García, Alvaro. Teacher-researcher, sociology degree program, Universidad Mayor San Andrés. Political advisor to Felipe Quispe
-García, Enrique. President, CAF
-Gaviria, César. Secretary General, OAS
-Hakim, Peter. President, Inter-American Dialogue
-Hausmann, Ricardo. Professor, Kennedy School of Government, Harvard University
-Herfken, Eveline. Former Minister of Development, The Netherlands
-Herrán, Carlos Alberto. IDB
-Huici, Rodolfo. IDB
-Jardine, Edward. President, Andean Region, Procter and Gamble
-Juan, Ellis. IDB
-Kaufmann, Daniel. World Bank
-Landázuri, Helena. IDB
-Lapper, Richard. Latin America editor, Financial Times
-Laudicina, Paul. Vice President, AT Kearney
-Leme, Paulo. Chief Economist, Latin America, Goldman Sachs, New York
-Leyton, Alberto. World Bank
-Loser, Claudio. Former Director, Western Hemisphere Department, IMF
-Lupo, José Luis. Former minister, Bolivia. IDB advisor
-Malloch Brown, Mark. UNDP Administrator, New York
-Martínez, Elena. UNDP Assistant Administrator, Regional Director for Latin America and the Caribbean, New York
-McLarty, Mack. Former U.S. presidential envoy to Latin America
-Medici, Andre. IDB
-Melo, Carlos. IDB Representative in Bolivia
-Mercado, Alejandro. Instituto de Investigaciones Socio-Económicas (IISEC), Universidad Católica Boliviana
-Mirabal Palma, Jorge. United Nations Population Fund
-Morales, Juan Antonio. Bolivian Central Bank
-Nankani, Gobind. Vice President, World Bank
-Newman, John. World Bank Representative in Bolivia
-Noriega, Roger. Assistant Secretary of State for Latin America, U.S. Department of State
-Omoya, Carlos. Japan International Cooperation Agency
-Ortuño, Armando. UNDP
-Pardo, Luis. Bolivian Board of Trade
-Parot, Rodrigo. IDB
-Perry, Guillermo. Chief Economist, Latin America and Caribbean Region, World Bank
-Quiroga Ramírez, Jorge. Former president of Bolivia
-Reich, Otto. U.S. presidential envoy to Latin America
-Rogoff, Kenneth. Counsellor, Chief Economist, IMF
-Romero, Peter. Former U.S. Assistant Secretary of State for Latin America
-Rubio, Mónica. IDB
-San Martín, Waldo. United Nations Population Fund
-Seligmann, José. IDB
-Singh, Anoop. Director, Western Hemisphere Department, IMF
-Sosa, Antonio Juan. Vice President, CAF
-Toro Ibáñez, Graciela. Office of the Deputy Minister for Public Investment and External Finance (VIPFE)
-Valda, Sergio. Bolivian Animal Health and Food Safety Service (SENASAG)
-Vivas, Leonardo. Competitiveness consultant, Boston
-Yamaguchi, Naotaka. Japan International Cooperation Agency (JICA)
-Yoshida, Mitsuo. Japan International Cooperation Agency (JICA)
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Maceira, Daniel (2001). *Gasto social, equidad y descentralización en Bolivia.* IDB

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