



**Office of Evaluation and Oversight, OVE  
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***RE-297***

***Country Program  
Evaluation (CPE)  
Bolivia 1990-2002***

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## ACRONYMS

AFP	<i>Administradores de Fondos de Pensiones</i>
BONOSOL	<i>Bono Solidario</i>
CAF	<i>Cooperación Andina de Fomento</i>
CDF	Comprehensive Development Framework
CEPAL	<i>Comisión Económica para América Latina y el Caribe</i>
CIDA	Canadian International Development Agency
CPE	Country Program Evaluation
CPI	Consumer Price Index
DAC	Development Assistance Committee
EIF	Emergency Investment Fund
EIH	<i>Encuesta Integrada de Holgares</i>
ENE	<i>Encuesta Nacional de Empleos</i>
ESMAP	Energy Sector Management Assistance Program
EU	European Union
FCC	Collective Capitalization Fund
FDI	Foreign Direct Investment
FIS	Social Investment Fund
FSO	Fund for Special Operations
GDF	Global Development Finance
GDP	Gross Domestic Product
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IDB	Inter-American Development Bank
IEHD	Special Hydrocarbons Tax
IFI	International Financial Institution
IMF	International Monetary Fund
INE	National Statistical Institute
IPES	<i>Informe de Progreso Económico y Social</i>
IRR	Internal Rate of Return
LAC	Latin America and Caribbean
MECOVI	Improvement in Living Conditions Survey
MNR	<i>Movimiento Nacionalista Revolucionario</i>
MOE	Ministry of Education
NFPS	Non-financial Public Sector
NGO	Nongovernmental Organization
NPE	New Economic Policy
NPV	New National Housing Policy
OECD	Organization for Economic Cooperation and Development
OPRCOS	Operational Cost Information System
OVE	Office of Evaluation and Oversight
PAIS	Project Alert Identification System
PAN	Program of Care for Boys and Girls Younger than 6

PAYG	Pay As You Go
PBL	Policy-based Loan
PCR	Project Completion Reports
PEA	Economically Active Population
PPMR	Project Performance Monitoring Report
PRSP	Poverty Reduction Strategy Paper
PSD	Departmental Development Programs
ROS	Regional Operations Support Office
SAFCO	Financial Administrative and Governmental Control System
SBEF	Superintendency of Banks and Financial Institutions
SIMECAL	System for Measuring Quality in Education
SNII	<i>Servicio Nacional de Impuestos Internos</i>
TC	Technical Cooperation
UDAPE	Social and Economic Policy Analysis Unit
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VIPFE	<i>Viceministerio de Inversión Pública y Financiamiento Externo</i>
WB	World Bank

## EXECUTIVE SUMMARY

The following is a review of the Bank's experience in Bolivia from 1990 to 2002. It is produced at a time when the country is faced with a critical fiscal scenario, and in the aftermath of substantial social tensions that have led to the resignation of former President Gonzalo Sanchez de Lozada. This is relevant for the evaluation because it exemplifies a marked departure from the macroeconomic and political stability that the country enjoyed for the twelve years that are reviewed here.

This period of political and economic stability was also a period of deep, cross-cutting reforms in the country, supported fully by the IDB. Yet today Bolivia is still grappling with many of the issues that have been constants in the country's history: social and ethnic inequities, challenges in identifying viable export avenues for growth, difficulties in managing public spending, and poverty.

The current scenario is also relevant because it finds the IDB with no clear articulated strategic response to the country's development challenges. For the first time in over a decade the Bank has not programmed a full cycle in the Country Strategy, limiting the identification of operations to one year. This, again, is a marked contrast from the Bank's previous programming with Bolivia, which has been characterized by complete uninterrupted country strategies and a complete programming effort, and a full utilization of FSO.

This gives rise to the following question: given the period of economic stability and given the complete engagement that Bolivia has had with IDB—and with international cooperation in general—why has the country not achieved expected growth, fiscal and poverty levels? Furthermore, given the extensive reform agenda proposed and executed in Bolivia, with the full support of the Bank and other agencies, why does the country face many of the same challenges that it faced in the 1980s? The evaluation did not produce unequivocal answer to these questions. However, it does provide findings that shed light on them.

The Bank identified in its programming many of the country's major development challenges and approved operations in most of them, such as persistent poverty, low levels and quality of human capital, high transportation costs within the country and between its neighbors, low levels of capital formation, and poor government institutions. The Bank's program did not, however, help the country address key development questions, such as (i) the problem of ethnic inequalities, which was never addressed *sui generis* until the 2001 PBL in support of the Bolivian PRSP; (ii) the country's reliance on foreign flows; and (iii) the challenges associated with coca eradication. Therefore, the first evaluative finding is that the Bank's relevance was only partial, given that core issues were not addressed

The second major finding is that the Bank and Bolivia were in agreement regarding the country's major reforms. Bolivia's good execution record is evidence of significant

country “buy-in” of all major investment and structural reform initiatives. This is not a story of problems in execution and cancelled loans. The Bank’s priorities, as revealed by their lending pipeline, were also consistent with that of the World Bank and other IFIs. This level of agreement suggests a Bank engagement that was consistent with activities in the country and among other IFIs. This result is conditioned by the documented instances of the cost of poor donor coordination, as well as anecdotal evidence of the transaction costs of doing business with the Bank.

The third evaluative finding is that the costs associated with reform programs were not anticipated during programming. This is clearly the case in the pension reform, in which the IDB had mainly a financing role through the privatization PBL. It is also the case with many of the decentralization initiatives, supported by the IDB in both loans and TCs, in which municipalities, having been caught unprepared for the new responsibilities accorded to them, have had to deal with human resource, management and planning problems.

The fourth major evaluative finding is that in many cases there is evidence that Bank-supported interventions improved country-level outcomes. The evaluation found improvements in health and education indicators across the board, implying that future generations of Bolivians will enjoy higher levels of human capital. In the case of education these include decreases in repetition, increases in coverage, and decreases in the incidence of overage. In terms of tax and customs reform, the Bank’s persistent presence has produced evidence of increases in collections—at least with respect to internal revenues.

However, in many instances no evidence was found of Bank effectiveness. This is the case of the Bank’s support for decentralization, in which there is no evidence that Bank supported training and modernization at the local level have produced good local management or improvements in investment decisions. This is also the case with the Bank-supported social investment funds. Yet in other cases the evaluation found that the Bank did not produce data that would allow for an evaluation of the project’s expected outcomes. This is, for example, the case of the energy modernization project.

These micro-level results notwithstanding, at the macro level the Bank’s interventions have been insufficient to compensate for contravening factors. Tax administration reform was successful, but was not able to keep up with the government’s spending demands. Social reform was successful at producing better indicators, but the youngest cohorts of Bolivians are faced with a unfavorable labor demand scenario in which to apply their human capital. The privatization reforms generated significant foreign inflows, but these have now subsided, and the country again needs a new way to produce capital formation.

Expectations regarding the international cooperation’s activities in Bolivia with respect to growth, fiscal strength and poverty have been overstated. The growth projections, reflected in HIPC and PRSP documentation, as well as in projections made by other institutions, promised a steady-state level of growth between five and six percent, a level much superior to Bolivia’s historical average. These incorrect projections informed policy and formed the basis of poverty and fiscal targets which will not be realized.

The conclusion from the above is tempered by the opportunities that present themselves to Bolivia, even as the fiscal, social and governance picture remains problematic. Bolivia may benefit from a very positive foreign environment. Export commodity prices are up, and its neighbors and main trading partners are growing. This exogenous and positive macro shock will give some impetus to investment and growth and should boost government revenues. However, the unsustainable fiscal deficits and the uncertain political environment restrict the extent and nature of public policy that the country can pursue.

Given these macro opportunities and fiscal and political restrictions, it is incumbent upon the Bank to define how it can help the country to take advantage of this window of opportunity by defining selective, high return interventions that will minimize additional short run fiscal demands.

The end conclusion falls naturally from the discussion above: during the decade the Bank has found in Bolivia a partner receptive to the Bank's development program, which in addition was able to implement, together with the Bank, this program with greater efficiency than most other Bank members. This receptive environment created a long window of opportunity for the Bank and country reform programme. However, the Bank was unable to fully capitalize on this opportunity. Rather, the expectations generated by the Bank and the other actors involved in the reform of Bolivia regarding the impact of this reform have not been realized. Given average growth results, the persistence of poverty and social inequities, as well as the continued institutional weakness in the country, coupled with a heavy debt burden and an increasingly complicated fiscal scenario, it is time for the Bank to reevaluate the nature of its involvement with Bolivia and critically assess the value added of its interventions.

OVE's first recommendation regarding the Bank's future engagement with Bolivia is that the Bank empirically characterize the benefits associated with the Bank's future lending program for Bolivia and the burden imposed by the same on the country.

This recommendation is made operative through the following three components, all of which should be taken into account:

- a. Debt dynamics and IDB lending. The administration should either validate debt projections of other institutions, including associated growth parameters, or perform its own debt sustainability analysis. In either case alternate scenarios should explicitly model the likelihood of macro shocks. The results of this exercise should inform and be fully reflected in the Bank's next Country Strategy.
- b. The transaction costs of working with the Bank. The administration should prepare and present in the next Country Strategy an analysis of the transaction costs associated with borrowing from the Bank, including an attempt to monetize these costs in present value terms. Procurement, monitoring and reporting costs, along with costs associated with coordination problems should be empirically addressed.
- c. Value added and project prioritization. Given the country's limited capacity for further borrowing, the administration should prioritize among different proposed

Bank interventions. This prioritization should be grounded on a methodology that quantifies the short- and medium-term benefits associated with Bank operations and compares these with the costs of those operations. This analysis should be applied to future projects and presented to the Board at the time of project approval.

- d. Relationship with other donors. As part of the Bank's efforts to coordinate and harmonize its activities and procedures with international cooperation agencies, the Bank should attempt to empirically measure the magnitude of different coordination bottlenecks, so that their relative importance can be assessed. The Bank should also assess the adequacy of existing mechanisms for donor coordination, particularly as they relate to themes outside social spending and poverty reduction.

OVE's second recommendation is that the Bank take into account the role of country-specific characteristics in the effectiveness of the Bank's interventions, particularly to the extent that additional reform is made part of the country strategy. This recommendation is made operative through the following components:

- a. Relevance of governance and politics. Produce an analysis of the likely impact of the country's political and governance dynamic on the execution and effectiveness of existing and proposed Bank activities. This analysis should inform and be fully reflected in the new Country Strategy.
- b. Relevance of resource constraints. Produce a plan of study to analyze the impact of the country's geographic, natural resource, capital and human endowments and constraints on the country's growth prospects. Special attention should be paid to the decentralization challenge now facing the country, and the short-run costs associated with decentralization. This analysis should inform and be fully reflected in the new Country Strategy.
- c. Social exclusion. Produce an analysis of the underlying causes of social exclusion among different demographic groups—particularly among indigenous peoples. This analysis should inform and be fully reflected in the new Country Strategy.

## EVALUATION STRATEGY

The purpose of this evaluation is to assess the Bank's engagement with Bolivia along the four main lines delineated in the protocol for the conduct of CPEs<sup>1</sup>. These are the *relevance*, *coherence*, *efficiency* and *effectiveness* of Bank interventions. Given the structure of the CPE, the first and last criteria (relevance and effectiveness) are usually the focus of the first and last chapter, while the second criterion (coherence) is addressed mainly in the programming chapter (chapter 2) and the efficiency criterion is addressed mainly in the delivery chapter (chapter 3).

In the case of Bolivia the *relevance* criterion will be the focus of the evaluation, given the Bank's importance (in financing, support of reforms, etc.) to the country. This does not imply that other factors will not be considered; but rather that the relatively high degree of involvement observed by the Bank (and other agencies) in Bolivia makes the country stand out as a test case in which one can clearly observe the result of the application of almost two decades of Multilateral-assisted reform. The criterion aims to answer, essentially, the following question: Were the Bank's interventions appropriate in addressing the country's development needs? Of course, this question cannot be separated from the *effectiveness* criterion, since the "appropriateness" of intervention will in the final analysis be conditioned on the delivery of results—and the change in the level of anticipated (and non-anticipated) outcomes is the metric by which these results are measured.

The *coherence* criterion requires one to compare at least two different sets. For this evaluation these sets will be (i) the Bank's lending versus other Bank activities (instrument coherence); (ii) the Bank's activities versus the country's activities (Bank-client coherence); (iii) the Bank's activities over time (temporal coherence), (iv) and finally the Bank's activities as they relate to other donors. The *efficiency* criterion deals mainly with looking at ratios, where the numerator picks up country or country-bank metrics and the denominator picks up the counterfactual (e.g. bank-wide average, group D country average, country-bank performance in previous years, etc.). These ratio approach is used to measure various aspects of efficiency, including temporal (typically time efficiency of delivery), cost (mainly cost of lending and execution and administrative costs), and execution metrics.

The evaluation is organized as follows. The remainder of the present chapter weaves the country context and describes the main country reforms, with a discussion of the Bank's role in these. This allows one to draw inference regarding the country's development needs, and allows one to place the Bank within this context. The second chapter presents a discussion of the Bank's programming and intent. This identifies what the Bank said it would do in Bolivia, and allows one to follow the dynamics of Bank objectives and proposed activities. The third chapter details issues of execution and efficiency. The fourth chapter presents results and ties these to the needs assessment of chapter one, and the last chapter present conclusions and recommendations.

## I. COUNTRY CONTEXT AND DEVELOPMENT CHALLENGES

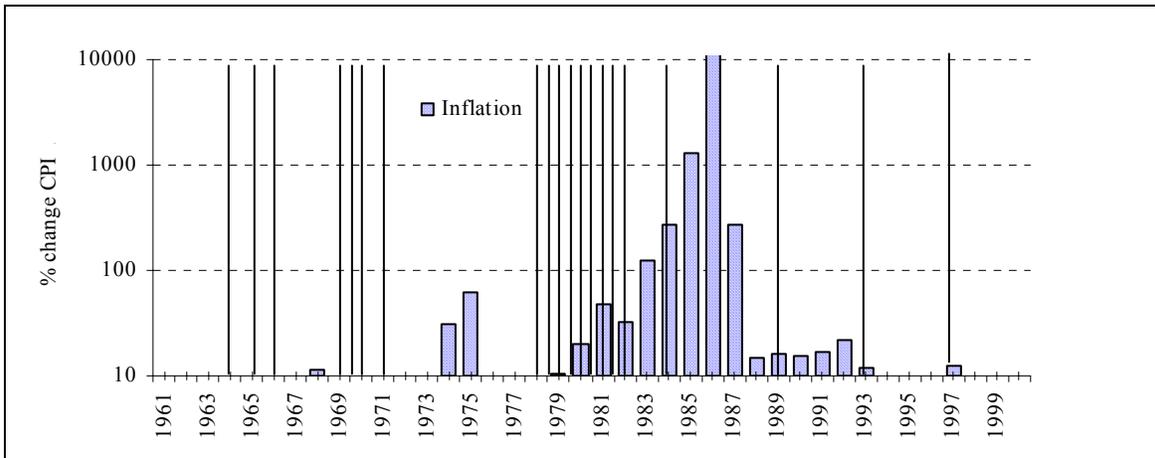
- 1.1 The last two decades have witnessed dramatic changes in Bolivia, as the country attempted to transform itself from a model based on “state capitalism” to a free-market economy. These included changes in a number of different areas, ranging from a very successful economic stabilization reform in the early eighties, to more controversial privatization and decentralization reforms implemented with increasing intensity throughout the nineties. In addition, the country has been able to maintain a high degree of continuity in its economic and social policy, albeit with different degrees of intensity, between the four different administrations.
- 1.2 Although the period under review is 1990-2002, one must look briefly at the context leading up to the reforms of the 1980s and 1990s in order to understand the motivation behind the recent Country and Bank’s policy implementation. This takes us to the years leading up to 1952 and the Bolivian revolution.
- 1.3 In the mid twentieth century Bolivia was by far the poorest country in South America, and the second poorest in the Americas, wealthier only than Haiti (on a GDP per capita basis). Schooling was for the privileged few, with a scant 30% of the population literate, concentrated in the urban areas of La Paz, Cochabamba and Santa Cruz. Life expectancy was just shy of 50 years, and infant mortality claimed almost one in three children. Bolivian society was also extremely unequal, with extremely large income and land disparities<sup>2</sup>. The economy was structured between agriculture and mining, being that tin mining, which had replaced the silver mining of the 1800s, was responsible for the majority of exports and government revenue. Mining was dominated by three mining families, who shaped the country’s policy agenda for the better part of 50 years, through the *Rosca* system<sup>3</sup>. On the other hand, agriculture was still organized in *latifundios*, a system of land tenure and labor relations inherited from colonial times that provided no possibility for social mobility, limited ownership rights, and produced very little income for the mostly indigenous population that worked the land.
- 1.4 The 1952 revolution was the result of a collection of different factors, including the disillusionment associated with Bolivia’s conflict with Paraguay in the Chaco, the associated surge in nationalism, as well as the experience of the nearly 250,000 conscripts to life outside the confines of the *latifundio*. However, there can be no doubt that the meager living conditions, as well as the ubiquitous social inequalities were key to the downfall of the oligarchic government in 1952, as was the exclusionary development policies followed by the Bolivian state, policies that failed to produce sustained growth, political or economic stability, or any measure of social equity.
- 1.5 The revolution marked the beginning of the Bolivian state as the centerpiece of the country’s economic environment. Conducted by Paz-Estensoro, Siles, and

the MNR, the revolution ushered a model of state capitalism in which the state owned most large productive enterprises, and was essentially responsible for most capital formation in the country<sup>4</sup>. The state also became the source of employment for hundreds of thousands of Bolivians, and as such became the main source of income, directly or indirectly, for large parts of the middle and upper classes that came to depend on it for their welfare. Part of the MNR's agenda included land reform, and the revolution can be credited with dismantling the discriminatory and anachronistic norms associated with *latifundio* land and labor relations<sup>5</sup>. What did not occur in any extensive way was a systematic change in land ownership<sup>6</sup>. In this sense the revolution's plan for reform was only partly implemented, and in the ensuing years proved to be unsustainable.

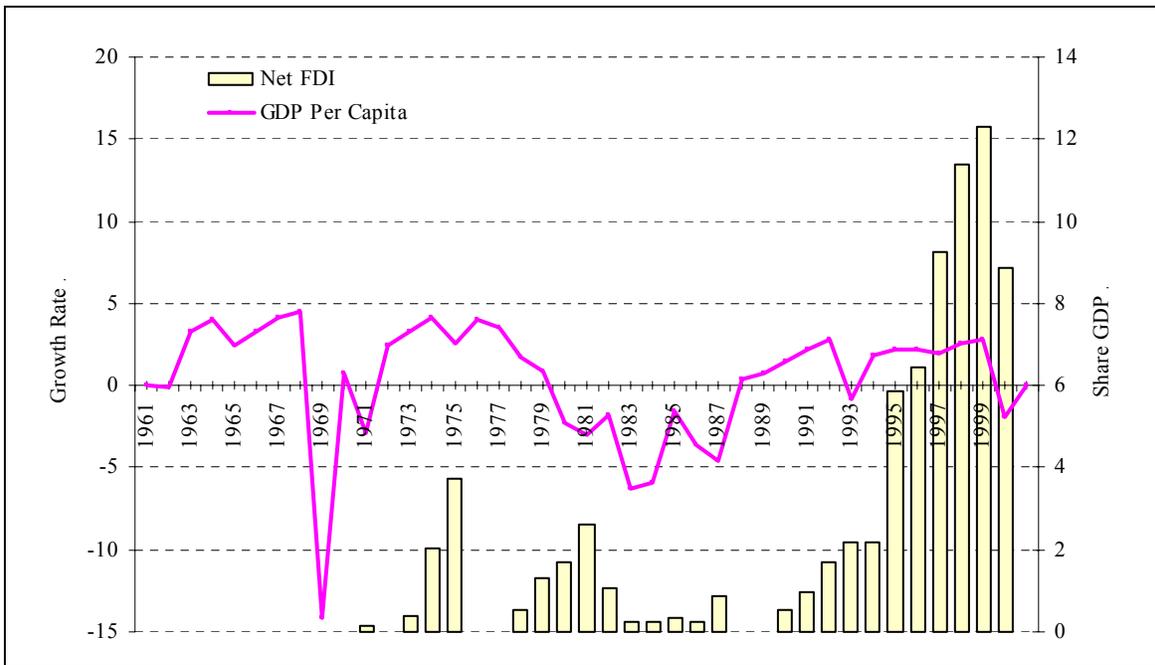
- 1.6 What followed was a period of tenuous democratic rule, punctuated by military and civilian dictatorships. Throughout this period of 1964 to 1982 the model of state capitalism was maintained, although specific government policies governing monetary, fiscal and export policies, varied widely from one administration to the next. This volatility in policy was characterized by an equally volatile political environment, where in a period of 18 years there were no fewer than 17 changes in government, in most cases representing an alternation between conservative and leftist regimes, who proposed either a reversal of state capitalism (conservatives) or an expansion of the state (leftist). The end result was a long period in which the country was unable to generate enough stability to either make much headway in resolving issues of social exclusion or to generate private and foreign investment, and ultimately sustained growth. The small size of the Bolivian economy also implied that capital formation, necessary for growth had to be obtained in large part through foreign capital flows. This restriction limited the effectiveness and sustainability of the country's import substitution policies of the 1960s and 1970s.<sup>7</sup> Equally important was the reliance on foreign flows and Mining and Hydrocarbon taxes for public financing, which made for a volatile revenue environment and eventually led to periods of seignorage financing (and ensuing inflation) in the mid-seventies and early eighties (see Figure 1.1).
- 1.7 The period was also disappointing in terms of poverty. Although Bolivia made significant advances in terms of health and education indicators, the country was unable to improve its poverty profile. In fact, throughout the 1950s, 1960s, 1970s and 1980s, Bolivia's real GDP per capita remained roughly stable and even declined, the decline being due mostly to the 1980s, where a combination of adverse idiosyncratic, regional and global macro and governance shocks plummeted the country into a prolonged period of recession. In any case, the country ended the 1980s with a lower GDP per capita than it had in the end of the 1950s. Furthermore, although advances in social indicators were significant, they were unable to elevate the country's position vis-à-vis its Latin American neighbors. In effect, the rate of distributional and welfare improvement seen in the early 1950s proved to be unsustainable, as the country was unable to articulate consistent development and economic policies for much of the later half of the 20<sup>th</sup> century.

- 1.8 A more stable democratic rule returned to Bolivia in 1982, with the government of Siles-Zuazo. Siles-Zuazo, however, inherited a troublesome fiscal and inflationary environment, which severely handicapped the execution of state monetary and fiscal policy. By 1982, Bolivia, like many of its neighbors, had incurred large foreign-financed government debts. The service of these debts produced repeated budget deficits between 1975 and 1981. In addition, interest rates rose sharply during the early eighties, at the same time that the price of Bolivia's export commodities plummeted. Matters were made even worse when the gas export agreement with Argentina expired, and was renewed at unfavorable terms.
- 1.9 During the period Bolivia was unable to generate foreign currency through exports, and given that there was no market for government paper, the only recourse for Siles-Zuazo was to rely, first, on austerity measures, and later on the Central Bank to finance the deficit through seignorage. This increase in money quickly produced high and sustained rates of inflation, punctuated with a hyperinflationary period between 1984 and 1986. The ensuing economic crisis led to civil strife and cast serious doubt as to the sustainability of the country's newfound democracy; Siles-Zuazo was forced to call for early elections in 1985. The new election once again brought Paz-Estensoro to the presidency
- 1.10 The cumulative effects of the severe hyperinflationary recession of the 1980s, along with the resulting marked reduction in the monetary welfare of most Bolivians, a doubling of the unemployment rate, and very slow progress on the social front, generated demands for change and set the stage for the stabilization and subsequent neoliberal policies implemented in the late eighties and nineties. The first reform package came in the form of the New Economic Policy (NEP), initiated by Paz-Estensoro. During the first months of his administration, he implemented a drastic stabilization package, with the Decree 21060 and other measures. These included a moratorium of public debt, coupled with a reduction in public sector employment of 10%, a freeze on public wages and an increase in taxes—particularly due to an increase in both fuel prices and taxes. These public financing policies were accompanied by liberalization of prices, both domestically in the form of commodity, labor and credit prices as well as a liberalization of exchange rates and a lowering and simplification of tariffs. In addition, the financial sector was reformed. Reserve requirements were implemented, an independent bank superintendency was created<sup>8</sup>, and bankrupt state banks were closed.

**Figure 1.1: Macro-stability and Political Changes, Bolivia, 1960-2000**



Note: vertical lines indicate regime changes



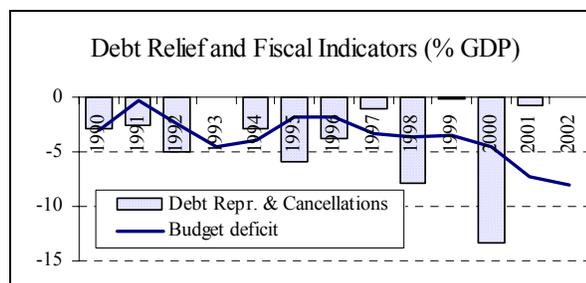
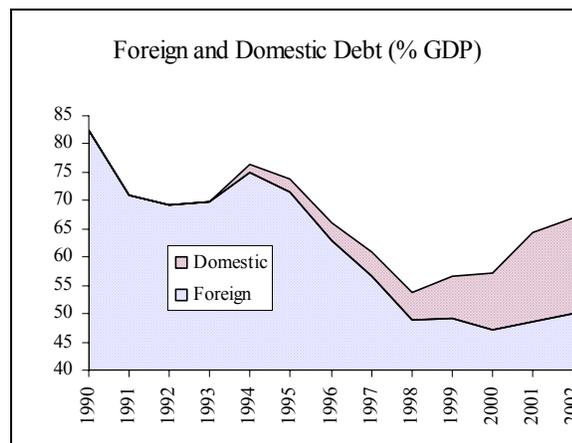
Source: Own elaboration based on World Development Indicators (2002) and Kaufman et al, “Sustained Macroeconomic Reforms, Tepid Growth: A Governance Puzzle in Bolivia”, in *In Search of Prosperity: Analytic Narratives on Economic Growth*, 2003.

1.11 Paz-Estenssoro’s reforms succeeded where many of Bolivia’s neighbors, faced with similar fiscal and inflationary crisis, had thus far failed. The immediate effect of the stabilization package was a control of inflation, and a reduction in the public sector deficit. A rapid improvement in the overall investment climate followed, leading to both more FDI, as well as a return of multilateral financing. The reform did, however, bring about a rise in unemployment, and a deterioration of the current account<sup>9</sup>.

- 1.12 Some of the unemployment and welfare implications of reform were addressed with the Emergency Investment Fund (EIF), implemented with the support of the IDB and World Bank. This fund financed health, education, credit and poverty-related projects that provided some relief from unemployment and the adjustment of relative prices<sup>10</sup>. However, the impact on real income was small, and certainly insufficient to counterbalance the “stabilization shock” produced.
- 1.13 The Paz-Estenssoro reforms represented a marked change in Bolivia’s economic policy. Although the majority of reform efforts were aimed at returning to some form of macroeconomic stability, they also included incipient aspects of what would later become a lasting, consistent state policy based on four major lines. The first of these lines is the removal of the state from industrial and other productive activities, converting the state from purveyor of economic output to, in some instances, a regulator of economic activity; the second is liberalization of products, labor, capital and currency markets; the third is a political and fiscal decentralization reform, transferring control of policy to sub-national units; the fourth is a policy focused on increased social spending, particularly in education, sanitation and health. These policies were followed, with differing degrees of intensity, by all the administrations in the 1990s.
- 1.14 Following the stabilization package during the Paz-Estenssoro administration, the new government of Paz Zamora (1989-1993) slowed the reform pace, although key measures were taken to promote foreign investment, which eventually led to the privatization program that followed, in Bolivia dubbed the *capitalization* program. These Paz Zamora investment reforms had a number of important effects, including creating equal treatment for foreign and national investment and allowing for partnerships between state and foreign oil companies in hydrocarbons. The administration also made further efforts to liberalize trade by reducing import tariffs to the lowest levels in the region.
- 1.15 Although the growth rate during the Paz-Zamora administration initially showed a monotonic increase, by the end of his mandate both the fiscal picture and growth started to show signs of weakness<sup>11</sup>. Fiscal deficits, which had been under control during the years immediately following the stabilization reform, had once again begun to increase, reaching 6% in 1993. These deficits were financed largely by grants and concessional funds. Meanwhile, the debt structure was kept in check due to bilateral debt rescheduling and cancellations<sup>12</sup>. There was also growing consensus among policymakers that liberalization of productive and commodity prices alone was not enough to achieve higher growth, and that a deepening of reforms, aimed at redefining the state’s role, was required. In addition, there was growing awareness—both inside Bolivia and within the international community—of the need to redefine social policies to address the persistent poverty and social deficits that were marginalizing a large majority of Bolivia’s citizenry. The task of addressing these problems would fall on Paz Zamora’s successor, Sanchez de Lozada.

1.16 The first Sanchez de Lozada administration (1993-1997), deepened the reform process, by pursuing an aggressive privatization program and implementing the decentralization of decision-making, leading to a greater role for Municipalities in formulation of public policy, as well as to greater political participation in the form of elected local legislatures and elected executives. In effect, the centralized model the country had known since 1952 began to change, accelerating the move away from production activities, and transferring significant amounts of the social investment decisions to sub-national units.

**Figure 1.2: Evolution of Debt**



Source: GDF (2003), Bolivia Public Expenditure Review (2004) and INE.

1.17 This shift is nowhere more evident than in the privatization of the state owned enterprises in mineral extraction, hydrocarbon, as well as railways, electricity and telecom. This privatization, better known as a *capitalization*, due to its focus on providing Bolivians with part of the privatized shares, was the first of its kind in Latin America in a number of ways. First, it did not entail an outright sale of firms. Rather, the reform privatized 50% of company ownership, which found mostly foreign ownership<sup>13</sup>. Second, the remaining ownership of firms was to be held in trust for Bolivians in order to provide old age benefits that would complement pension reform under way. Third, the speed and extent of privatization was unprecedented in the region. Most privatization was done within the period of two years, and encompassed the country's largest industries.

1.18 As was the case with the initial stabilization process in the 1980s, the privatization reform, the liberalization of wages and import restrictions, as well as the labor market and fiscal reform was a joint effort between the Bolivians and the multilaterals. Through policy-based loans and technical cooperations, both the World Bank and the IDB provided both funding and expertise in support for Bolivian reform, a partnership that would be maintained throughout the 1990s. Meanwhile, the IMF assumed a leadership role in fiscal and macro management and in the stabilization and liberalization reforms of the early nineties.

- 1.19 The privatization program was very successful at attracting foreign investment, to levels hereto unseen in Bolivia. The increase in foreign investment was mostly due to capital investments in gas, electricity, and telecom. These increases, together with reforms in the financial sector, caused second round increases in private domestic investment and consumption. This boom in investment drove economic growth throughout the mid-nineties to late nineties. The annualized growth rate of private investment in Bolivia, driven by the privatization of state firms, was a full 13 percent, almost five times greater than the growth in consumption over the decade, of around 3 percent annually (see Annex Table A1). This investment-driven growth produced annual GDP growth rates that averaged 4 percent throughout the Sanchez de Lozada administration.
- 1.20 At the same time that investment was booming, public deficits were decreasing, mostly as a result of increases in tax revenues and decreases in interest payments on bilateral debt. This extra fiscal space also allowed the country to implement changes in the delivery of education, health, increase its spending on social programs and, closely related to this, allowed a restructuring of government through sweeping decentralization reforms. This increase in fiscal space was also made possible by further debt rescheduling and forgiveness.
- 1.21 The increased social investment can only be understood in the state reform context in which it was implemented. The method of investment delivery changed from an overwhelmingly centralized provision of services to provision based on municipalities. This reform was implemented by a wide-ranging decentralization reform, enacted as part of the *Ley de Participación Popular* and the *Ley de Decentralización*. The motivation behind this reform was to make expenditures in social investment more efficient, to the extent that this is measured by a match between expenditures and local needs. The underlying hypothesis was that communities would be better able to assess their needs and select how best to make investments in order to address these needs<sup>14</sup>. From its inception the decentralization was supported by both the IDB and the World Bank, both through credit and lending activities and, more generally, in the context of the HIPC initiative and the corresponding Bolivian PRSP<sup>15</sup>. The IDB in particular focused on loans to strengthen municipalities and their ability to plan and execute investment projects.
- 1.22 The decentralization program implemented had three main dimensions: a fiscal dimension, a service provision dimension, and a political and social participation dimension. The fiscal dimension consisted of providing municipalities—and to some extent prefectures—with own resources. This was done by increasing central government transfers to local government from 10% to 20% of all revenues, through the *Ley de Participación Popular*, and subsequently by transferring 25% of hydrocarbon revenues (IEHD tax) to prefectures, through the *Ley de Decentralización*. These transfers were done automatically to each of the 311 municipalities, each municipality's share of the overall revenue sharing being determined according to a population formula<sup>16</sup>. In addition to revenue transfers,

- municipalities also counted on a limited financing, based essentially on property taxes.
- 1.23 The service provision also changed as a result of decentralization. Municipalities inherited most of the education, health and social development functions previously handled by the central government, with the exception of payroll functions that were retained by the central level. The degree in which functions were transferred, and the timing of these changes is very sector-specific, and extended beyond social sectors<sup>17</sup>. In addition, they were given broad discretion on prioritization of social investment, and on how to spend municipal funds. Oversight of this discretion was attributed to regional civic associations, the *Comités de Vigilancia*.
  - 1.24 The last aspect of decentralization was the creation of political institutions at the municipal level. Each municipality was endowed with elected legislative and executive bodies. The stated purpose of this component was to generate greater participation of Bolivians in the political process. Preliminary evidence shows that this did indeed take place, and that furthermore, the increased political awareness at the local level has had a contagion effect, leading to an increasing political voice of the poor and socially excluded onto the national stage.
  - 1.25 By the end of the Sanchez de Lozada administration the country's debt profile had improved significantly, having benefited from a string of bilateral reschedulings and cancellations (see Figure 1.2 below). This debt profile was further enhanced by the country's participation in the Highly Indebted Poor Country (HIPC) initiative, spearheaded by the IMF.
  - 1.26 What differentiates HIPC from other bilateral debt reductions that had taken place previously is the framework in which it was implemented. HIPC was a concerted and coordinated effort to reduce debt overhang that involved both bilateral and multilateral donors<sup>18</sup>. In this sense, although the amount of debt reprogramming and cancellations is ubiquitous throughout the decade, HIPC introduces an ordered framework in which debt relief took place.
  - 1.27 In the case of the enhanced HIPC (HIPC II), the initiative also linked debt relief to social expenditures<sup>19</sup>. The country was required to prepare a poverty reduction paper, a document that both served as a poverty diagnostic and as a guide for social policy, and was required to back this strategy with predetermined levels of social spending. In other words, the enhanced initiative essentially allowed a substitution of existing debt for more spending on social programs. In practice this implied—not only in the case of Bolivia but in all instances of enhanced HIPC in Latin America—that HIPC beneficiaries replaced existing debt with further borrowing in order to fund social programs.
  - 1.28 The IDB's participation in the HIPC initiative was not without controversy. Given Bolivia's improved fiscal scenario at the time of HIPC, and given the country's relatively low debt ratios (debt to GDP, NPV of debt to exports)

Bolivia's inclusion into the HIPC initiative in 1997 was thought to be unjustified by the Bank, as is reflected in the Bank's working group report on HIPC implementation<sup>20</sup>:

“...In Bolivia's case, the present value of debt-to-exports is projected to fall below 250 percent from 1998 onwards and the debt service ratio is slightly above 25 percent only in 1997-98. The remedy should be designed to take care of a liquidity rather than a solvency problem....Even if eligibility is accorded in recognition of past performance, the choice of the debt sustainability target should reflect Bolivia's relatively favorable economic situation (per capita income, vulnerability indicators) compared to other potential HIPC beneficiaries. The NPV debt-to-exports ratio set for Bolivia will effectively become the upper limit for the HIPC Initiative.”

- 1.29 Despite the Bank's assessment, and despite the reservations expressed to the Board regarding HIPC, the Bank eventually adhered to HIPC and became the main source of HIPC debt relief for Bolivia<sup>21</sup>.
- 1.30 1997 saw the election of General Hugo Banzer. A former dictator, Banzer came to power through legitimate, democratic means. By all accounts, the Banzer administration inherited the most favorable fiscal and economic scenario the country had had in years, even if the reform process had begun to generate upward pressures on public spending, systematically producing budget deficits of 2-3 % of GDP. However, he also inherited many of the unresolved issues related to the policies advanced by Sanchez de Lozada and by Paz Zamora before him, including little improvement in poverty and extreme poverty rates, increases in unemployment, and an increasing incidence of low-quality, informal sector jobs. In addition, Banzer inherited high expectations regarding the future growth profile of Bolivia.
- 1.31 The first two years of the Banzer administration were, from the real economy point of view, successes. The economy grew at 5% in both 1997 and 1998. The initial growth in investment initiated in the end of the previous administration continued unabated, even if they did displace domestic government investment (see Annex Tables A1 and A2). The favorable fiscal scenario also allowed the government to expand social spending, in an effort to reduce both poverty and social exclusion. This new focus on social spending, one of the cornerstones of the Banzer administration, was supported by the international community with both concessional funds and technical expertise. In the Bank's case the support was through a 40 million sectoral loan in support of the Bolivian PRSP, which was later ratified by the IDB, the World Bank, and the IMF. The strategy set government spending priorities and long-term targets for education, schooling, and growth outcomes.
- 1.32 By the third year of the administration, several factors came to head to produce the ingredients of both an economic and social crisis. The adjustment costs of

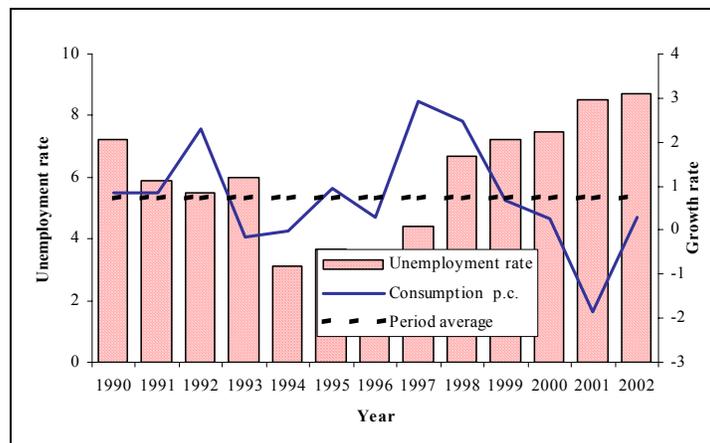
- decentralization, coupled with a sustained revenue-outlay gap, began once again to strain public resources. These pressures, together with an ambitious (and expensive) social investment agenda, and large liabilities associated with the pension reform, produced public deficits in the neighborhood of 3%. These deficits were financed with a steady flow of foreign aid, mostly in the form of concessional funds and grants, which kept the country's debt profile from deteriorating.
- 1.33 Fiscal stability and growth were not the country's only source of problems. After over a decade of reforms the country began to see increasing social tensions. This was partly due to an increasingly unpopular coca eradication program, which encountered fierce resistance by growers, but was also driven by a growing dissatisfaction with the persistence of poverty and social exclusion affecting large strata of the Bolivian population. Although the country was seeing a monotonically improving social scenario, with higher school attendance and better health outcomes, these changes in human capital were not translating into real monetary and welfare gains for the vast majority of Bolivians. Although education and health are longer term investments, there is no evidence that the first cohorts benefiting from increased social capital have better labor market outcomes than previous cohorts.
- 1.34 The now accumulated 12 years of reform had as of yet not provided increases in real income for large strata of the Bolivian society, and the degree of unemployment was rising at the same time that higher quality jobs were being replaced by low-paying informal employment. The capital-intensive growth of the previous years was not able to produce a comparable increase in earnings. Real consumption per capita increased over the decade at an annualized rate of under one percent. Furthermore, the empirical evidence reviewed showed that the growth in high quality jobs was concentrated among the more educated (those with more than secondary), with basically no wage employment growth among those with primary or less<sup>22</sup>.
- 1.35 Matters become worse when the initial impetus of investment-driven growth slowed and, in 1999, began to rapidly fall: the privatization process had exhausted its potential for generating additional foreign investment. This investment dynamic was then hit by several macro-level shocks, including (i) a drying up of international funding, (due to an international finance crisis), (ii) macro-level contagion effects from the 1998 exchange rate crisis in Brazil followed by the 1999-2002 crisis in Argentina, (iii) losses generated by the El Niño and La Niña weather phenomena, and (iv) a shock to agriculture output due to eradication of coca. These shocks served to worsen Bolivia's short-run competitiveness (exchange-rate effect), limit possibilities for further capital investment (financial contagion effect), and reduce short-run aggregate supply (both weather and coca effect).
- 1.36 The result of these latent fiscal imbalances and macro shocks was a two-year period of low growth and a dramatic increase in levels of public debt, coupled

with an increase in the unemployment rate and a decrease in household incomes, and a fall in resources available for counter-cyclical social investments. This bleak macro picture, along with the persistent social exclusion and poverty, was the legacy inherited by the second Sanchez de Lozada administration as it took office in 2002.

1.37 The negative poverty and fiscal situation of 2002 only worsened during the short tenure of the new administration, and was aggravated by increasing social tensions. Although the administration once again was faced with a deteriorating fiscal situation, the push toward a deepening of reform, including a move toward finding alternative means to export Bolivian gas through liquefied gas exports, proved to be politically unsustainable. Faced with 16 years of policy that had not resulted in real income gains for large strata of Bolivians, the new administration's renewed call for structural change met fierce political opposition. This opposition galvanized different groups of Bolivian society, including indigenous groups and coca producers. Lacking the broad-based support that he had enjoyed in his first administration, the Sanchez de Lozada administration was effectively paralyzed by the opposition, which destroyed the administration's ability to conduct public policy. This social protest was not limited to formal political institutions, as demonstrations—many times violent—increasingly took place. The culmination of this process was a bloodied protest in the streets of El Alto that eventually forced the resignation of Sanchez de Lozada in October of 2003.

1.38 As can be seen from the discussion above, Bolivia has implemented a wide variety of reforms, ranging from macro-stabilization to decentralization and state reform (see Annex Table A3). We also see a remarkable continuity in the support for these reform efforts, and a progressive deepening

Figure 1.3: Unemployment and Consumption



Source: Data from INE.

of the same from one administration to the next. Furthermore, we see that although for the most part these were country initiatives, their design and implementation was a true partnership with the multilateral community. The reform agenda was for the most part in full agreement with multilateral priorities. However, after a long legacy of reforms, the country is, today, faced with the same development challenges that were present in the late 1980s. It still has not been able to achieve growth through exports; exports as a share of GDP remain low. It has been unable to generate the broad-based growth necessary to

significantly reduce poverty. On the contrary, the major growth industries have not been labor-intensive, generating an increasing labor productivity gap between industries. This increase in labor market inequality was exacerbated by the increasing returns to secondary and college education and a decrease in the returns to primary education. This is true both of employment and earnings. Lastly, the country is still faced with fundamental issues of social exclusion.

- 1.39 This is not to say that there have not been accomplishments. During the period the country has achieved a level of macroeconomic stability, being one of the first Latin American countries to bring inflation under control. In terms of exports, Bolivia has achieved a greater degree of export diversification (see Annex Table A16), even if it has not been successful in increasing export's share of GDP. Bolivia has also achieved important advances in health and education, including important milestones such as universal primary coverage, as well as improvements across the board in health indicators (see Table 1.1). In addition, if one measures poverty according to the criteria of unmet basic needs, we see that Bolivia did improve substantially<sup>23</sup>. Furthermore, the drive toward privatization and the elimination of the state from productive activity was also accomplished, and as will be seen later, this has produced both micro-level benefits (gains in efficiency) and macro-level benefits (increases in investment). Regarding decentralization, the evidence reviewed shows that political participation has increased, particularly among indigenous groups.

**Table 1.1: Social Indicators in Bolivia and Latin America**

<i>Indicator</i>	<i>1990</i>			<i>2000</i>			<i>Indicator Improved vis-à-vis L.A.?</i>
	<i>Bolivia</i>	<i>L.A.</i>	<i>Difference</i>	<i>Bolivia</i>	<i>L.A.</i>	<i>Difference</i>	
Youth literacy rate <sup>1</sup>	89.9	90.8	0.9	95.9	94.2	-1.7	Yes
Gross primary enrollment	94.0	107.0	13.0	109.0	119.0	10.0	Yes
Infant mortality	90.1	46.7	-43.4	65.6	34.9	-30.7	Yes
Life expectancy	56.8	67.1	10.3	61.4	69.9	8.5	Yes
Human Development Index	0.597	0.720	0.123	0.653	0.760	0.107	Yes
Incidence of poverty <sup>3</sup>	49	36	-13	47	29	-18	No
GDP per capita	739	2567	1828	995	3836	2841	No

Source: UNDP and CEPAL. <sup>(1)</sup> Literacy rate reported for 1990 corresponds to 1985 values. Infant mortality refers to the 1985-1990 average and the 1995 refers to 1995-2000 average. <sup>(2)</sup> Recent enrollment data was only available for a subset of countries: 1996 (ES y JA); 1997 (AR, BO, CH, CO, GU, RD y VE); 1998 (BR, CR, CU, EC, ME, NI, PA, PE y UR). <sup>(3)</sup> For comparability purposes only urban poverty was used. Poverty statistics are from household surveys, see CEPAL 2001.

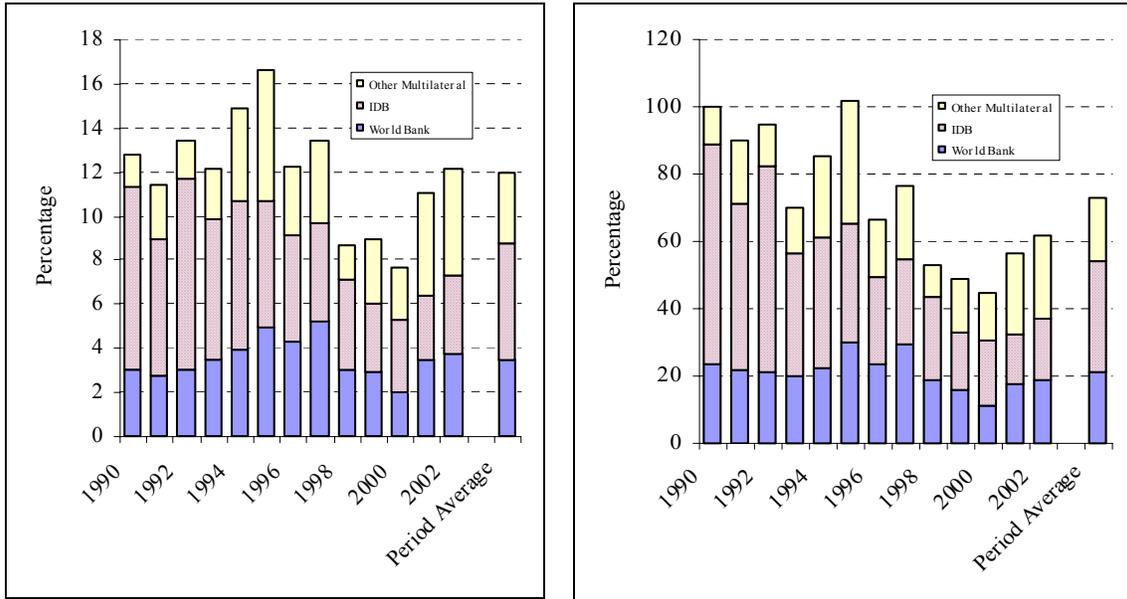
- 1.40 The issue, however, is that although the country has made significant progress during the decade, this observed level of achievement is at odds with the levels expected given (i) the country's documented track record of reform implementation, (ii) given the amount and nature of international assistance, and (iii) given the perceived and documented projections made by the multilaterals as well as the country—throughout the 1990s—regarding growth and poverty,

projections that have been systematically under met. In terms of the country's track record, this is evidenced from the high ranking that the country achieved in its structural reform index. The extent of multilateral assistance is well documented, as is shown in the delivery chapter. Furthermore, in case of the IDB these resources have been directed, to a great extent, to reform and modernization (see Annex Table A3). And as will be seen in the delivery chapter, in most cases funds for conventional investment projects were also coupled with reform components, usually components directed at reforming ministry or sub –ministry level institutions.

- 1.41 Despite a continuous and substantial flow of concessional aid, and despite frequent debt cancellations, both bilaterally and in the context of the two HIPC initiatives, fiscal sustainability continues to be, as it has been for most of Bolivian history, unrealized. Today, Bolivia's debt profile is quickly deteriorating, and with fiscal deficits in the neighborhood of 8 percent will become explosive in the very near future. This budget crisis has placed the country in a worst fiscal environment today than before the HIPC initiatives.
- 1.42 The privatization reform, although achieving a number of productivity and efficiency objectives, is closely related to the old age benefits under the BONOSOL, which together with the pension reform, has proved very costly to the country, producing deficits in the neighborhood of 3% of GDP. In the area of decentralization, as will be seen throughout this report, again reforms have in many instances exacerbated regional inequities, compromised the effectiveness of investment projects, and for many poorer *Municipios* have not translated into more efficient or more effective investment. Among the poor, and despite the appreciable increase in social investment, the higher levels of human capital have as of yet not been accompanied with corresponding income and employment gains<sup>24</sup>. In addition, the racial differences in social and economic outcomes remain, front and center, a pressing issue for Bolivia.
- 1.43 Despite unrealized growth, poverty and fiscal indicators, Bolivia does have a number of factors counting in its favor in the next few years. First, commodity prices in major exports have risen—notably in soy, gas, and mineral exports. Second, the growth scenario of Bolivia's major trading partners, at least for the next two years appears favorable: Brazil and Argentina will likely continue their economic recovery, while Peru and Chile's economies show continued robustness. In the longer run Bolivia's age distribution implies a fiscal window of opportunity, where the dependency ratio is likely to decrease over time, and where old age government outlays pressures are going to be kept in check. However, the country is still faced with the latent costs of reforms: pension reform continues to represent a unsustainably large component of the country's deficit, and the deepening of decentralization efforts have the potential—if not implemented wisely—to generate additional demands on public resources. Coupled with unsuccessful attempts at increasing the country's tax base, the fiscal scenario will require difficult choices regarding public spending, and will require

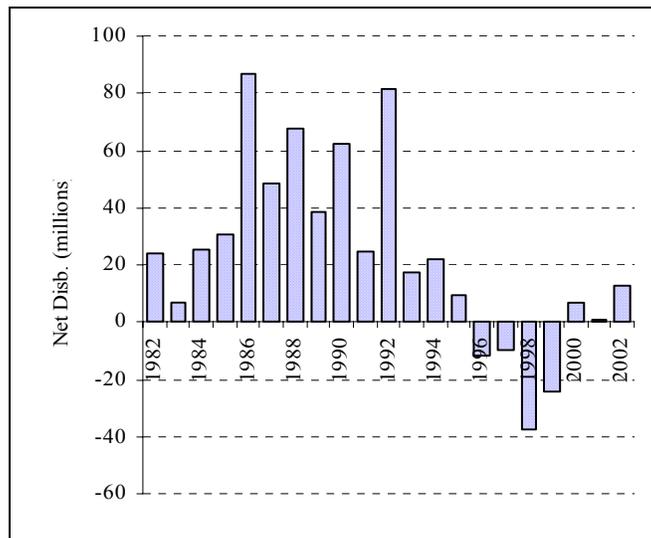
a high degree of prioritization in order to select only investments with the highest returns. Against this austere fiscal scenario the country also faces increasing demands of a citizenry for broad based economic opportunities and a more equal quality of life.

**Figure 1.4: IDB and Multilateral Disbursements, % of NFPS spending (right) and of Government Capital Formation (left)**



Source: INE; IDB Finance LMS.

**Figure 1.5: IDB Net Cash Flows**



Source: IDB Finance LMS

1.44 The above discussion describes the main reforms as well the apparent results of these reforms, at least the macro level. The IDB supported all the major reforms throughout the last decade with loans, and in the case of the initial stabilization effort, with technical cooperations. It supported state reform and decentralization;

it supported the privatization reform; it supported education and health reform; it supported increased spending on social investment; it supported financial reform, as well as changes in the legal rights governing investment. In nominal value the sum total of loans and grants exceed two billion dollars over a thirteen-year period. In addition, the Bank has been the main financial supporter of Bolivia's reforms, providing more funds over the decade than IDA, the IMF or CAF. In terms of budgetary support, the Bank's resource flows have averaged more than 5 percent of all spending of the Non-financial Public Sector (NFPS), and a full one third of government capital formation, although these amounts have decreased over the decade<sup>25</sup> (see Figures 1.4 and 1.5).

- 1.45 This level of budgetary support, together with the Bank's involvement in all of the country's major reform initiatives allows for the treatment of the Bank as an actor that is co-responsible, together with its partner Bolivia, in the country's economic and social outcomes. Therefore, the evaluation strategy will not focus on issues of causality, but rather treat country-level outcomes as the result of joint Bank and country interventions.

## II. THE BANK'S PROGRAM

- 2.1 The purpose of this chapter is to evaluate the Bank's programming with respect to its relevance to the country, its coherence with country policy and country needs, and its efficiency. In order to evaluate this, we rely on the Bank's written record. In this sense the first finding is that the Bank's programming effort has been complete. During the 12-year period there have been four country strategies, with no gaps in programming. This allows us to use country strategies as an indicator of Bank intent.
- 2.2 The four strategy papers cover the periods of 1990-1992, 1993-1994, 1995-1997, and 1998-2001. The first programming period covered the government of Paz Zamora, the second and third covered the period of Gonzalo Sanchez de Lozada, and the last programming cycle covered the Banzer-Quiroga period. The first year of the second Sanchez de Lozada administration will not be covered due to its brevity and to the absence of any formal programming intent.

### A. Review of the Bank's written Intent

- 2.3 Although the consistency of programming and other aspects of programming intent can be inferred from data on programming and approvals, the Bank's written record is the basis from which one can determine intent. In this section a review of the Bank's written intent, along with supporting data on programming data will be used to evaluate the Bank's intent. The documents varied from one to the next, and tended to reflect the Bank's outlook on development, which was also going through a transformation during the period of analysis. These points are discussed in more detail below, in the context of each programming period<sup>26</sup>.

- 2.4 The first document is the most focused on economic development and growth, particularly as it relates to industrial development. Its objectives include the objective of increasing reserves through export activities, assistance in debt management, promoting the efficiency of product markets and social investments for marginalized groups. It describes hypothesis surrounding the bottlenecks to achieving growth, and as such prioritizes public investment in infrastructure—both energy and transportation. This focus is also seen in the ample discussion of the potential for a gas pipeline to Brazil, in order to replace Bolivia’s gas exports with Argentina, which at the time has become essentially self-sufficient. In addition, investments in agriculture, as well as credits for small producers are included in the pipeline. These actions are consistent with the overall objective of investing in productive activities, particularly those that have a potential to generate exports.
- 2.5 Although the programming objectives tend to be broad and non-discriminating and general statements intent, this document does prioritize two specific and well-defined objectives. (i) The document stipulates the expansion toward foreign markets as a possible engine of growth, and thus aims to promote exports. (ii) The document identifies poorly developed markets for factors of production, particularly capital, as a constraint to growth. To this effect, a number of credit operations are proposed, including a Global credit, which sought to provide investment loans for the private sector through a financial intermediary and also sought to modernize the financial sector, in conjunction with the privatization sectoral loan<sup>27</sup>. Together with the investments in productive activity, these operations accounted for 82 percent of the programming, with projects approved in road infrastructure, micro credit and energy. The programming cycle also includes one of the major sector loans during the 1990-2002 period, a 60 million loan focusing on the privatization of small state enterprises and the closure of non-profitable components of larger enterprises (mining). It also requires the reform of the financial sector, with Bank and capital market deregulation. The single truly social operation approved was the 34 million dollar health and nutrition loan, that focused on child and maternal health (See Annex 2 for a description of projects and their results).
- 2.6 By the time the second programming document was being developed, there was a growing perception that the New Economic Policy (NEP), the stabilization policies implemented in the late eighties, had largely run their course, and that more was needed to attract the foreign investment that was to be the country’s engine of growth. There was also a growing recognition that more needed to be done on the social front. The document reflects these two preoccupations, and also a growing preoccupation, by part of the Bank, on issues of state reform. However, these priorities are stated and developed isolated from each other and at times in contradiction with each other. At different points the document prioritizes different objectives. Initially, it states that the most important objective is the “improvement of social conditions and the expansion of production for domestic consumption and export.” However, later the document states that the most decisive component of the Bank’s strategy is “the strengthening of the

public institution's capacity to carry out, in an efficient and responsible manner, the design, planning, evaluation and execution—as well as the control—of projects at both the central government and local level.” This duality permeates the document.

- 2.7 Revealed preference shows that despite the different objectives stated, what was programmed and approved was education reform, coupled with rural investment. The objectives of state reform were limited to a small Reimbursable TC that had not been programmed. The continuation of the privatization programme, which constitutes the cornerstone of Bolivian state reform, was delayed until the following programming cycle. The objective of expanding output for domestic consumption and export, although certainly consistent with greater credit, was also otherwise not addressed *de facto*. In effect, it is unclear from the programming document what the Bank's intent was, and in any case the objectives that the Bank did espouse were often inconsistent with what it programmed and approved. This lack of programmatic clarity resulted, not surprisingly, in the most timid of the programming cycles analyzed.
- 2.8 The second programming document can only be characterized as a transition between the Bank's previous emphasis on infrastructure, and the emerging emphasis on state reform and social development. This change in focus is accompanied by an absence of an evaluation or stock taking of prior results achieved. Although, as with the first document, the objective of promoting exports is emphasized, there is little reflection of why the country had not achieved this result during the preceding three years. The result is a programming cycle that essentially contains “second stages” of activities approved in the first programming period, in the form of rural and small enterprise credit operations (amounting to 134 million dollars). One exception to this is the first large Bank loan in support of education reform, for 80 million dollars.
- 2.9 The third programming cycle finds a country fully committed to reform. This is, however, only partly reflected in the Country Strategy. The strategy has four main objectives: “promote increases in investment and improvements in productivity”; “state reform and decentralization”; “reduction of poverty and social expenditure”; “environment and alternative development”. However, the focus of the strategy is clearly on the privatization program, the decentralization program, and on social expenditures, which together account for almost 2/3 of the approved amount, with the remaining 1/3 largely attributable to a water and sewer project. The strategy had the lowest rate of programmed projects approved of all four strategies, at only 32 percent, mainly due to the non-approval of all transportation and environment projects. On the other hand, every reform and modernization project was approved—and the only approved project that was not programmed, an additional loan associated with the privatization process, was also a reform and modernization project. In particular, the objective of improved productivity was only addressed tangentially, to the extent that activities in the other categories would indeed further this objective. In any case, the most

- ambitious programming effort is also associated with the lowest execution efficiency rates (see Annex Table A7).
- 2.10 If one looks at what the Bank actually approved in the period we see that the most prominent activities are the two loans in support of the Bolivian privatization program, for a total of 82 million, along with another 150 million in social programs, ranging from health and child development, to the new FIS, to a sanitation project. One also sees the emergence of a new modality of projects in Bolivia in which traditional investment projects are couples with institutional reform projects in a single operation. This is the case of the child development, the sanitation project, and an irrigation project. In all, a full 78% of approved funds contain a significant institutional reform element.
  - 2.11 As with the previous programming exercise, the programming paper makes almost no attempt to analyze the extent to which previous objectives have or not been met. For example, the paper proposes a health reform project, with little mention of the results associated with the 34 million dollar health reform project approved only three years earlier. In addition, there is no discussion on the impact that the ambitious programming exercise on the country's ability to service future debt. In fact, the question of debt relief and restructuring is only discussed front and center in the next programming cycle, at which time the country and the international community were already fully engaged in HIPC. Nor is there any discussion regarding the transition costs, to the country, from a lending pipeline in which 8 of 10 operations have significant reform content.
  - 2.12 The fourth program's actual statement of intent encompasses a remarkable number of different objectives, including promoting growth, generating economic opportunities, human capital development, access to basic public services, and improved governance. However, a reading of the document reveals that the overriding preoccupation is with human capital and social spending. This matches closely with the sectoral distribution of approvals. Social sectors, along with sanitation, comprise almost half of the approved amount, including no less than 90 million dollars in support of the Bolivian PRSP, and 45 million for health insurance for children and mothers, financed through the *Escudo Epidemeológico*.
  - 2.13 The approval statistics are also consistent with the emphasis on social spending. All social projects programmed were approved, and most of unanticipated projects later approved were also social projects, including a project supporting the PRSP. This high approval rate contrasts sharply with transportation projects, which although reprogrammed from the previous cycle, once again saw a low approval rate, with two of the three projects not being approved.
  - 2.14 The programming paper's merits notwithstanding, serious deficiencies remain. First, the paper makes no attempt to analyze the causes of the lower than expected growth in the country. To the extent that culprits are identified—such as human capital deficit, an unfavorable terrain, widespread subsistence farming and poorly developed infrastructure—there is no attempt to either quantify or justify these

restrictions to growth. In most cases these are simply enumerated as restrictions to growth. This failure to state these restrictions in relative terms, and indeed to provide an underlying model to explain the relationship between observed deficits and growth limits the document's usefulness to guide Bank project selection and activities. Second, arguments employed to justify the programming in previous periods are dropped and substituted for others, more aligned with the current proposed pipeline, with no discussion of changes in the context that would justify such a shift. Lastly, although the document discusses the performance of the existing portfolio, at least as far as execution is concerned, the supposed causes for instances of slow disbursement or other execution problems are in all cases attributed to country-specific factors. According to the document the usual culprits of lack of counterpart funds, institutional weakness, and lack country commitment account for all execution problems. No execution problems were attributed to the Bank.

- 2.15 A last issue in programming to consider is Bolivia's allocation of FSO resources. Since IDB8 Bolivia (and other D2 countries) has been a FSO only country, meaning that lending amounts are capped by the FSO allocation rule. Although this rule allocation criteria changed over the period under review<sup>28</sup>, the allocation was relatively reliable, (between 100 and 150 million per year), being that it was almost always fully utilized. This implied that lending for FSO countries was supply-constrained and that the constraint was relatively predictable<sup>29</sup>. However, the amount of funds programmed for Bolivia since IDB8 was substantially higher than FSO funds available, the ratio of programmed operations to FSO availability varying from a low of 1.1 to a high of 2.5. In addition, the last two programming exercises, conducted under IDB8, lacked any mechanism or any explicit criteria to prioritize among programmed projects. In other words, the Bank over-programmed, yet had no expressed instrument to eventually choose among the list of projects.
- 2.16 The review above highlights a number of important findings regarding the Bank's programming. First, although the overarching objectives of growth and poverty-reduction are present in all programming documents, the Bank's strategy for dealing with these problems changes from one document to the next. During the first programming cycle the strategy is one of investment in productive resources and physical capital to achieve growth, along with reform of the state's role in productive enterprises, represented through the first sectoral privatization loan. This focus is lost during the second cycle, when the Bank is caught in transition and does not articulate a consistent strategy. The last two documents, and the corresponding pipeline approved clearly shows the Bank's new approach to growth and poverty-reduction: at the risk of oversimplification, growth will be achieved through efficiency gains due to institutional reforms, while poverty will be attacked with investments in health, education and sanitation. This is not to say that the two components are not related. As we have seen most social investment had significant institutional reform elements.

- 2.17 Second, we see that the Bank’s intent and the country’s intent have generally been closely aligned. This is also true regarding the Bank’s intent and that of the other major actor in Bolivia, the World Bank. Both in written documentation and empirically one can verify that all major actors have been in Bolivia “on the same page”. This is evidenced nowhere more overtly than in the context of the HIPC initiatives and the PRSP, in which both the Bank’s programming and the World Bank’s programming closely match the objectives articulated by Bolivia’s development strategy (see Annex Table A5). Empirically, this is also verified. Looking at the distance between Bank-wide sector approvals and those in Bolivia, as measured by the Duncan index of dissimilarity (see Annex Table A6); we see that Bolivia ranks among the bottom countries, indicating a small degree of sectoral approval difference<sup>30</sup>. Regarding the World Bank’s approvals, a cursory look at the evolution of priorities by programmatic period is very similar to the Bank’s with a switch in emphasis, from productive investments early in the decade, to reform and social investments later.
- 2.18 The review of approvals, the review of the programming documents, and the dissimilarity results all point to the same overall conclusion: the IDB effectively promoted in Bolivia a lending pipeline that reflected the institution’s changing focus and priorities. Bolivia was receptive to these changes, and can be seen over the decade as having been one of the Bank’s “best customers”. In both the review of documentation and the review of projects approved, the evaluation found no evidence of significant discrepancies between Bolivia and the Bank, at least as far as development objectives are concerned.
- 2.19 In terms of relevance, the programming documents identified Bolivia’s poverty and growth deficits as a key development issues. Coupled with the amount of lending and aid offered the country during the programming periods, this is evidence of the Bank’s relevance in Bolivia. This finding is mitigated, however, by the Bank’s failure to identify and treat other key development issues in the country. Most notably: (i) the degree of social exclusion and ethnic tension is only treated in any significant manner in the Bank’s programming except in the PBL in support of the Bolivian PRSP in 2001, and in the context of multiethnic education in the Bank’s education reform project; (ii) a discussion of the country’s chronic reliance on foreign sources of financing to fund public expenditures; and (iii) the Bank has shied away from the complex political scenario in which Bolivia has conducted policy over the decade.

## **B. Measuring programming efficiency and quality**

- 2.20 Measuring the efficiency of programming is a difficult task, mainly because there is no clear definition of efficiency that immediately lends itself to the programming cycle. Nor is there empirical evidence on how these measures of efficiency matter, both in terms of development effectiveness and in terms of costs, either to the Bank or to the borrower. In any case, efficiency of programming is defined with respect to two aspects of programming: (i) the degree to which the Bank is able to approve projects that it programs (approval

- rate) and the degree to which the Bank is unable to accurately program what it approves (anticipation rate), and (ii) the timeliness of project preparation. In addition, this section also evaluates other program-level statistics that deal with the quality of programming, where only two narrow aspects of quality are defined: (i) ex-ante evaluability and (ii) thematic completeness of programming.
- 2.21 The first finding regarding programming efficiency is a programming process that consistently produces a low project approval rate (see Annex Table A7). During the four programming cycles 62 projects were planned, for a total amount of 2.76 billion dollars. However, only half of the projects were eventually approved. As a percent of programmed and not programmed projects this represents 48% of the amount approved. In some cases this has had the advantage of limiting the Bank's exposure and limiting the country's indebtedness, as was the case of the third programming cycle where it is questionable if Bolivia would have been able to absorb (and repay) the nearly 800 million dollars of debt that was programmed<sup>31</sup>.
- 2.22 As for the efficiency in programming, a 28% of projects approved were in fact never programmed. This is relatively low if compared to the same statistic analyzed in other CPEs (in Nicaragua this represented 62 percent of projects). In addition, one should point out that this statistic is mitigated by the fact that projects approved and not programmed tend to be of modest dollar amounts, leading to an not anticipated but done percentage of only 9% in dollar amount (vs. 28% in number of projects).
- 2.23 The second dimension analyzed regarding the efficiency of programming was the preparation time involved in studying and designing Bank projects. For projects included as part of the pipeline of a particular Country Strategy there is a poor match between the date in which the project began its design and the Country Strategy date. Most projects began their design, as measured by the profile I date, years prior to the strategy document being developed. In a few instances this is attributable to a project being "reintroduced" from a previous programming cycle. In most cases, however, this is not the case. To the extent that projects are significantly adapted between the profile I date and the end of the design cycle, this may not be a problem. However, if projects are implemented without effort to redo economic and sector work, one would have reason to believe that the project's relevance and effectiveness could be significantly attenuated as time elapses between the project's design and its implementation. Although the present matching analysis is limited to the Bolivian programming, the fact that preparation times in general (defined as the time between profile I and approval) are substantial—averaging 20 months for the Bank and 24 months for Bolivia—suggests that the problems with the relevance of country strategies as a vehicle for programming may be a bank-wide phenomenon. These results hold regardless of sector and over-arching theme.
- 2.24 When evaluating programming *quality* one is faced with a multi-faceted concept for which little data is collected. For this reason, we focus on the dimensions of

quality that are either observable, such as ex-ante evaluability, as well as on the extent to which the Bank was able to address the country’s over-arching development themes. The findings regarding ex-ante evaluability are not new, having been raised numerous times both in the context of country program evaluations and as part of the Office’s other evaluations<sup>32</sup>. In the case of Bolivia the results are somewhat more encouraging than those found in other evaluations, although the degree of completeness still leaves room for improvement.

2.25 The finding regarding evaluability is straightforward. Projects have increasingly been designed so that, *at face value*, they are more evaluable. This is seen from the monotonic increase in the evaluability index from one programming period to the next. However, the increase has come due to better-defined indicators and targets rather than more extensive data on baselines. In other words, the evidence suggests that the intellectual effort to develop more evaluable projects has not been complemented with measures on the ground to produce data. This finding is supported by the individual project-level results discussed in chapter four.

**Table 2.1: Ex-ante Evaluability Index**

	Index	General Objectives				Specific Objectives			
		Index	Indicators	Baseline	Targets	Index	Indicators	Baseline	Targets
Periodo Operativo									
90-92	<b>0.35</b>	0.42	0.60	0.40	0.27	0.28	0.55	0.10	0.20
93-94	<b>0.37</b>	0.21	0.50	0.00	0.13	0.54	0.75	0.25	0.62
95-97	<b>0.40</b>	0.33	0.50	0.25	0.25	0.47	0.88	0.08	0.46
98-01	<b>0.59</b>	0.65	0.82	0.55	0.58	0.54	0.92	0.05	0.64

2.26 Although ex-ante evaluability is useful to characterize the data and conceptual (indicators, etc.) framework of a lending pipeline, it cannot measure aspects of interventions that were not undertaken. To measure the completeness with which the Bank programmed in Bolivia one must look at the major development themes throughout the decade.

2.27 When tracking the Bank’s programming across time one sees that most of the major development themes were addressed. However, many core themes were left out. The most relevant examples are those of dependence of foreign flows, ethnic and social exclusion, and the illegal coca industry.

2.28 In the context of public sector spending, Bolivia has over the last two decades exhibited a chronic dependence of external financing, both bilateral and multilateral; the country’s budget deficits have been financed with positive net foreign flows. Over the last decade in particular, the country’s indebtedness has been kept in check due to concessional funds and grants and to debt reprogramming and forgiveness, ranging from bilateral and DAC forgiveness, to multilateral debt relief (mostly recently as part of the HIPC initiatives).

2.29 However, the strategy documents’ treatment of this problem is limited to a description of the debt profile, with no analysis of Bolivia’s reliance on external financing. Seeing as the Bank’s lending activities necessarily lead to higher debt

loads for the country, and given the dollar value of the Bank's portfolio in Bolivia, the lack of a thorough analysis of debt dynamics in each strategy constitutes a significant omission. As will be demonstrated in chapter 4 the reliance on debt analysis of other institutions has resulted in serious errors in forecasting that have affected both the sustainability of the Bank's programs as well as the burden of the same on public finances. The only documented studies of debt found by the evaluation were in context of the HIPC initiatives, late in the 1990s. However, Bolivia's participation in the HIPC initiative has to be regarded, to some degree, as an indication of previous failures by the IFIs and the country in identifying a sustainable borrowing strategy.

- 2.30 The theme of ethnic inequality is commented in programming papers, but they are not commented as a key issue in their own right; rather, their treatment is in the context of other factors, such as education, health, and poverty. Propositions regarding ethnicity are limited to improving social services, promoting education and health, without an explicit recognition of the different needs that face Bolivians of indigenous descent, who comprise a full 60% of the population<sup>33</sup>. As a result of these omissions, the Bank's programming does not contain an integrated approach to deal with matters of social exclusion, nor does it analyze the differentiated impact that reforms could have on different demographic groups<sup>34</sup>. Without treating the issue front and center, the programming documents have not addressed major factors that could introduce risk, and likewise have not proposed mitigation measures for these.
- 2.31 A third theme not addressed by the Bank in its programming is the challenge of identifying viable alternatives to coca production; and the challenge of paying for the costs of eradication. Nor is there evidence that Bank programming attempted to characterize or quantify the risks associated with the coca eradication policy, both at the project level and in terms of a country program<sup>35</sup>. The only instance in which the theme is discussed in any meaningful manner is in the last programming cycle, a programming cycle in which one of the government's four policy "pillars" is precisely the eradication of coca production. In this case, as in the discussions of the consultative group, the Bank proposal is limited to carrying out studies and approving TCs regarding the issue<sup>36</sup>.
- 2.32 The events of October 2003, which ultimately led to the resignation of President Sánchez de Lozada, underlines the impact of governance in development in Bolivia. The Bank has recognized the importance of politics—and particularly the importance of ethnic divisions in governance—to development results. A clear example of this is the Bank's emphasis on the issue in its 2000 issue of IPES. In particular, when discussing the importance of politics IPES points out that "any attempt to advance what have been called second-generation reforms is doomed to fail if it does not take politics into account"<sup>37</sup>. The importance attributed to the political environment is also reflected in the Bank's work regarding the contribution of politics to the success of reform, as well as other academic efforts related to politics and development. However, in all of the programming documents reviewed the issue was not present. The issue was also

ignored in the Bank's lending, with the exception of the Bank's support of the *Dialogo Nacional*, connected with the development of the *Plan de Acción Nacional*<sup>38</sup>. The corollary to this finding is that the risks alluded to in the IPES are likewise not identified and therefore no mitigation mechanisms are developed.

### III. BANK PROGRAM IN EXECUTION

- 3.1 The topic of execution is one that cannot be looked at in isolation. It interacts closely with results, since as one expects, the quality of execution is an input in project outcomes. It also is related with programming intent, since this intent determines the type and nature of projects executed. For this reason, many of the dimensions of execution will be evaluated in the context of programming intent and of the expected outcomes of that intent.
- 3.2 Project execution is multi-dimensional. For some of these dimensions, such as the timeliness of execution, one can construct reasonable indicators, while for other dimensions, such as the efficiency of expenditures, these cannot be constructed. However, where information is not available to construct direct indicators of execution performance, proxy measures were used; limitations of these indicators are also discussed.
- 3.3 Delivery was evaluated along three main lines. First, the nature and extent of execution problems is evaluated. For this exercise we rely on three types of Indicators. First, indicators of timeliness of delivery, including measures derived from the efficiency of disbursement curve as well as ROS's qualifications of projects as being on "alert" due to delays in execution. These measures of delay are derived from the Project Alert Identification System (PAIS). Although execution delays can be thought of as a result of underlying factors, it is nevertheless, an indicator of the Bank's main delivery outcome.
- 3.4 The second type of Indicators are implementation progress indicators as measured by the Bank's Project Performance Monitoring Report (PPMR) qualifications regarding execution problems—the Implementation Progress(IP) rating. Working under the assumption that underlying execution factors impact the IP rating, the final qualification of a project as having "poor" implementation progress is taken as a proxy for more subjective measures of implementation performance. These ratings are complemented by an evaluation of the degree of compliance with Bank supervision requirements, as measured by the supervision index developed by OVE<sup>39</sup>.
- 3.5 Lastly, evaluation of project assessments, in PPMRs, in Project Completion Reports (PCRs), and to some extent in Mid-term evaluations, of major delivery problems. In other words, in its internal and external reviews what were the implementation issues and what did these delays imply in terms of project effectiveness?

- 3.6 Second, delivery is evaluated as to project expenditure flows. Ideally one would like to measure how efficiently the Bank and country are using project funds in order to produce outputs. This dimension of delivery, however, is very much a “black box” in the Bank. Since the Bank has no internal method for classifying expenditures into disaggregated and meaningful expenditure categories, one actually has very little idea on what—exactly—the Bank has spent project moneys on. Rather, expenditures are classified into generic expenditure cells, such as “consulting services”. To exacerbate the problem, these classifications, derived from the project document, are in fact not comparable across projects. In other words, there is a problem of aggregation, as well as a problem of subjectivity. To deal with the lack of information on expenditures, one has to rely on proxy measures of expenditure efficiency. The three measures that are analyzed are (i) the degree to which project funds are reallocated between components, (ii) the findings of external auditors regarding project disbursements, and (iii) the dollar amount of project expenditures earmarked for administrative expenses.
- 3.7 Third, we evaluate the issue of inter-agency coordination and their relevance to public finance planning. This factor is particularly important to Bolivia, due to the large number of donors in the country. These donors contribute to public finance, but also represent transaction costs to Bolivia in the form of coordination and procurement requirements.
- 3.8 Fourth, delivery is evaluated as to its relevance for public sector planning. The main indicator for planning purposes is the degree of predictability of monetary flows, measured by the aid volatility. We also look at the impact of flows on public expenditures, and discuss many of the implications of this impact, particularly regarding the issue of aid fungibility and investment expenses.
- 3.9 The execution performance was found to be, in general, better than the Bank average. The median value of several indices point to an execution that was relatively timely, had relatively few implementation problems, and complied with the Bank’s supervision requirements. Projects have executed faster than average, they are less likely to be classified as being “on alert”, and they are less likely to have been classified as having problems in implementation.
- 3.10 Timeliness of delivery can be looked at as one component in the project lifecycle, which begins with the project’s profile one and ends when all project evaluation activities are finally completed. For Bolivia each stage of project delivery presents different results. As seen previously, investment projects in Bolivia have a high preparation time, in part due to “recycling” of projects from one programming cycle to the next. On the other hand, in terms of execution the country is doing better, and has been improving over time. On average, projects have overrun their original execution time by four years. This average is smaller for active projects, which have overrun on average 31 months. This smaller predicted average is despite the fact that closed projects tend to be those that have quicker execution—particularly if one is looking at projects approved late in the

- 1990s<sup>40</sup>. In terms of the incidence of under-disbursement, where under-disbursement is measured with respect to the Bank average, one sees that Bolivia is likewise doing well. This trend is due mostly to the good performance of the most recent cohort of projects, rather than to an increase in the disbursement rate of older projects. Indeed, older projects such as two of the infrastructure projects approved in the first programming cycle remain in execution, and have accumulated large delays of over eight years overrun. Meanwhile, more recent state reform projects, such as the Financial Administration Modernization Program (BO0196) and the Customs Reform Program (BO0159), are predicted to overrun their original execution time by less than a year. Based purely on projects in execution, the incidence of under-disbursement was just shy of one quarter of projects, placing the country squarely in the top group of performers.
- 3.11 This dynamic pattern is also reflected in the monotonic improvement in the Bank's self-evaluation of projects through both the PAIS system and the PPMR system. In both cases, the data show an improvement in (i) output-related indices, such as ratings of Implementation Progress (IP) and (ii) timeliness of delivery, reflected in entries in the PAIS system and in the incidence and depth of under-disbursement.
- 3.12 This correlation is to be expected given that problems in implementation progress can reasonably be expected to cause delays, which will translate directly into project execution time overrun. Indeed, if one models execution overrun—both observed overrun of closed projects and predicted overrun based on past disbursement profiles—the conclusion is that projects having been classified as having poor implementation progress can expect to take eight months longer in execution than those that are never so classified. The corollary to this finding is that even projects that are never classified as having implementation problems will still see substantial delays in disbursement. In the case of Bolivia the delays were of 32 months for closed projects, with a similar predicted delay for projects in execution (see Annex Tables A8 and A9).
- 3.13 The favorable results with respect to timeliness of delivery and implementation progress are also seen in the high compliance rate by the Bank with its supervision instruments. Although there is no information for the beginning of the decade, for the period 1998-2001 the Bank complied with a vast majority of its mandated supervision activities. All PPMRs were completed as required, almost all PCRs were completed on time, and mandated administrative and inspection visits were also—by and large—done when required. This performance is reflected in a high supervision index of 0.8.
- 3.14 The evaluation of project efficiency with respect to monetary measures is difficult due to the lack of any systematic information on expenditures. The only measures of expenditures are those used (i) by staff in preparation of projects and (ii) those predicted in the loan document for the purposes of the executing unit<sup>41</sup>. However, in both cases these are contaminated by different types of measurement error<sup>42</sup>. Despite the possible sources of measurement error, both measures of costs yielded

- consistent results<sup>43</sup>. In both cases we see a cost structure that increases with the amount of the loan, but less than proportionally, suggesting substantial fixed costs associated with both project preparation and with project execution. This cost structure has the implication that projects of smaller dollar amount tend to imply a smaller share of funds available for investment, and a larger share of funds used in both preparation and execution phases of documents. For the case of Bolivia we see that the country has higher than expected costs in both dimensions. When comparing projects of similar size, Bolivia's costs tend to be higher than the Bank average in both preparation and execution, although the magnitude of this difference is modest.
- 3.15 Beyond a characterization of costs and loan amounts, it would be useful to link the Bank's preparation efforts to, ultimately, the additional costs that these imply for loan transaction costs. Here a predictable pattern emerges: loans with longer preparation times tend to be loans with more costs associated with project preparation. For the Bank as a whole a five percent increase in preparation time is associated with a one percent increase in loan preparation costs. In Bolivia the ratio was found to be of similar magnitude. These results do not translate into larger executing unit costs; these are unrelated to preparation times.
- 3.16 Although Bank expenditure categories are non comparable across projects, the Bank does track how funds are reallocated within these categories. In almost all cases, the original bank expenditure categories do not correspond to the final expenditure categories. In some instances this is due to the existence of flexible spending categories, such as "contingencies" or "unallocated" designed to give the project more expenditure latitude, but in most instances this is due to re-mapping of investment categories associated with project components. As one would expect, the extent of reallocation between categories increases as the project disburses: freshly approved projects have no incidence of expenditure re-mapping, while closed projects have, on average, 13 percent of expenditures allocated differently than originally programmed. For executing projects the number is lower: 7.6 percent. Once we account for time in execution, Bolivia projects are in line with the Bank average, with 8.8 percent of amounts re-mapped.
- 3.17 The Bank has no instrument to assess the efficiency with which moneys are spent. It does, however, audit the compliance with Bank requirements—mostly disbursement requirements—by conducting annual audits of disbursed loan funds<sup>44</sup>. The results of these annual reviews place Bolivia as one of the countries with fewest audit problems. Over the period 1998-2002, for which data is available, we see that the amount of disbursements which were found to be "qualified" by auditors was 40 percent. This places the country as ranked 18 out of 25 countries.
- 3.18 Beyond the administrative and preparation costs mentioned above, there is a growing consensus among donors and lenders alike that foreign lending and grants have also produced significant transaction costs related to monitoring,

reporting and procurement requirements, as well as costs associated with poor coordination among donors<sup>45</sup>. This preoccupation is reflected in the results of the recent official's survey in 11 countries—including Bolivia—by the OECD<sup>46</sup>. The grievances with the greatest incidence in the survey, apart from the ubiquitous complaint that the lending program does not fit country priorities, are those associated with the direct and indirect coordination and compliance costs associated with dealing with donors (see Annex Table A10). Of particular interest is the high incidence of complaints regarding “donor procedures”<sup>47</sup>.

- 3.19 In the case of Bolivia the transaction costs are particularly relevant, given the amount of aid and the number of agencies active in the country. The amount of foreign flows is one of the highest in Latin America, and the number of agencies also high, with 48 agencies involved in the country during the decade<sup>48</sup>. The distribution of commitments between agencies also increases the coordination burden, in most cases for relatively modest resource amounts. The first three agencies in the country—IDB, CAF, and World Bank—accounted for a full 63 percent of all credit and grant commitments. The top twelve agencies account for 90 percent of resources, with the remaining 10 percent distributed among 36 agencies. This highly skewed distribution is also reflected in the average credit or grant, which are also much larger for larger agencies. The most important 12 agencies approve contracts averaging 10 million, while the remaining agencies approve much smaller average amounts, at 4.6 million.
- 3.20 There is evidence, at least at the anecdotal level, that both the bureaucratic requirements alluded to above as well as poor coordination have had negative impacts on execution in Bank loans. A good example is the case of the Bank's support for the census (BO0189), where the compliance with Bank procedures was identified as a major problem in execution—particularly given the complexity of the different tasks required in order to prepare the census<sup>49</sup>. In the case of aid coordination, a recent DAC evaluation of donor coordination in Bolivia highlights the case of MECOVI, where satisfying separate monitoring and reporting requirements by the different donors (World Bank, IDB, UNDP, Sweden and Canada) was estimated to account for 45 percent of INE's program coordinator's time<sup>50</sup>.
- 3.21 Given the importance of this issue to Bolivia, it is not surprising that Bolivia took the lead in addressing it, prior to the efforts of the World Bank with CDF and PRSP. In the case of Bolivia, the country took an active role in coordination efforts with multilaterals at the same time that it took a more active role in determining its own spending priorities. This started as early as the country's activities surrounding the first National Dialogue and the development of the Banzer-Quiroga *Plan de Acción Nacional*. It was followed up with a second National Dialogue, which culminated in the Bolivian PRSP.
- 3.22 The PRSP is the most prominent tool for coordinating country and donor priorities in the country. In this context one should note that there was significant support, both for the second National Dialogue which informed the PRSP and for

the PRSP itself, a view that was corroborated during mission interviews. The PRSP has served as a mechanism to coordinate lines of action between Bolivia and the major actors that are active in the country<sup>51</sup>. On the other hand, the CDF has not found a foothold in policy. It was not implemented as an institutional counterpart to the country's policy dialogue initiatives, and therefore, unlike the PRSP, it is relatively unknown among all but high tier bureaucrats<sup>52</sup>. Furthermore, among other donors—including the IMF—it has received very little buy in. In effect, the CDF has been made redundant in Bolivia, to the extent that (i) that the country's own initiatives supplanted the CDF and (ii) that it was superceded by a more coordinated and inclusive PRSP process<sup>53</sup>. One of the implications of the irrelevance of the CDF in Bolivia thus far, is that the country and the international cooperation have to rely on the PRSP process as a method for coordinating policy outside of social spending. This is particularly important for the IDB, given the current strategy's focus on productive activity and growth. Since these topics are treated—in large part—with respect to their role in reducing poverty, it may be necessary to reassess the coordination mechanisms available to Bolivia.

- 3.23 As was seen above, problems in the coordination of delivery of foreign flows—both with the country and with donors and lenders—can have adverse impacts on execution and development effectiveness. However, foreign flows also present two additional questions regarding public finance. First, they represent an additional source of variability and unpredictability. In order to facilitate the planning of expenditures, central planners and line ministries should be able to anticipate the availability of funds from foreign flows. Second, as far as the Bank is concerned the effectiveness of foreign flows may be compromised by the final destination of funds, and by the income and substitution effects that these engender. To the extent that funds are fully fungible, Bank disbursements may simply be reduced from expenditures in other sectors.
- 3.24 In the case of the Bank, flows have been characterized by highly volatile flows, but not in the case of Bolivia. The coefficient of variation of financial flows was 37.10, representing the least volatile flow of funds throughout the decade of any member country<sup>54</sup>. In addition, the Bank has participated in the two major debt relief initiatives, which in both cases aimed to increase the funding for social programs in order to preserve the flow of benefits. These loans directed at maintaining social spending during tight fiscal environments have contributed to flows that are both smooth, and anti-cyclical.
- 3.25 The evaluation also attempted to assess the destination of IDB financial flows with regard to capital and current expenditures<sup>55</sup>. The finding, which was not restricted to Bolivia, is that disbursements tend to have a larger impact on current than on capital spending, with the difference in magnitude between the two of roughly 4 to 1 (in the base model every disbursed dollar was associated with an increase of capital spending of 0.8 and 0.13 in current spending). The results also indicate that the IDB's disbursements have the same impact than those of other multilaterals. Nor is the share of PBL versus investment loan disbursements

- important: what matters are overall disbursements. These results are not, however, new, but rather part of a large and well documented literature indicating that multilateral and bilateral agencies have been unable to place investment funds in the intended sectors. Rather, governments to a large extent are able to substitute between investment categories, making funds fungible.
- 3.26 The findings above point to a Bank execution experience that has been positive. There have been delays, but these have in general been less severe than in other countries. In terms of the Bank's self evaluation, the findings again point to fewer projects on "alert". Regarding the Bank's supervision and evaluation mandate, again, the results are unremarkable, with a high level of compliance (PCRs done, missions done, etc.). The same is true of auditor's qualifications, which in general have been better than the Bank average in Bolivia. These results are complemented with a positive Bank experience regarding the cyclicity and volatility of its financial flows. These flows were remarkably predictable (i.e. not volatile) and have not been pro-cyclical.
- 3.27 The second part of the results with respect to delivery is somewhat different. The evaluation's review of existing literature found that Bank monitoring and reporting requirements have been identified, along with problems in aid coordination, as one of the main problems in delivery. The evaluation found that both of these issues have been associated with problems in execution. Furthermore, although the country's efforts at coordination, backed with the PRSP, have provided a useful instrument for coordination and priority setting, it is clear that the desired level of harmonization between actors, one of the tenets of the CDF, has not been achieved. These problems, along with the finding that financial flows (both IDB and others') are correlated with a much higher increase in current than in capital spending, raise concerns regarding the effectiveness of the Bank's delivery.

#### **IV. RESULTS ACHIEVED**

- 4.1 In this chapter the results of the Bank's activities during the twelve-year evaluation period are analyzed. The evaluation strategy was twofold. First, an aggregate analysis based on macro-level variables will characterize the evolution of results over time. Given the complete nature of the Bank's participation and the magnitude of its resource flows, the Bank can be reasonably treated as a partner in development, and in this sense co-responsible for positive or negative outcomes. Furthermore, given the evidence presented above in support of similarities in objectives between the Bank and the country, it is reasonable to treat the two entities jointly. This macro methodology is complemented with a more detailed look at specific projects, chosen to be representative of the Bank's intervention, but with a bias toward projects that have already produced results. This micro

approach will base itself on a review of both Bank documentation of its results, (PPMRs, PCRs, Mid-term Evaluations, Ex-post evaluations), as well as data collected by OVE from the executing units and from widely available data sources.

- 4.2 For the purposes of this evaluation the Bank interventions are classified into three categories: social investment, infrastructure and productive investment, and governance and state reform, being that both social investment and state reform are intimately connected due to the changes in the delivery of services implied by the country's decentralization process.

**A. Infrastructure and growth**

- 4.3 Infrastructure has represented one of the mainstays of Bank financial support in the country. No single sector accounted for a larger programmed dollar amount than did infrastructure. Of the largest 15 loans 5 are infrastructure loans, three of these being road construction. Infrastructure also represents, from a historical point of view, a senescent sector in the Bank's portfolio, decreasing in importance concurrently with the increased prominence of reform and social investment. In Bolivia this is also the pattern. Infrastructure, at least initially, is part of what appears to be a Bank growth strategy based on subsidies to capital investment. However, by the middle of the decade this strategy is dropped, and so are most infrastructure projects.

- 4.4 The decline of infrastructure investment as the cornerstone of a growth strategy is exacerbated by the poor delivery in the sector—particularly in road construction. Whereas bank-wide the sector tends to be faster disbursing than other sectors, in Bolivia it has been the most problematic of all major sectors analyzed, mainly due to long execution delays.

- 4.5 The case of road infrastructure is of particular concern, given the potential importance of the sector to Bolivia's development and given its relevance in the country's portfolio. Bolivia has one of the worst road deficits in Latin America. This has led to higher transportation costs (10-30 percent higher than its neighbors, in terms of us\$/Ton-km) and lower accessibility, so it is reasonable to expect road infrastructure to be important for the development of the country's productive activity.

- 4.6 The impact of execution delays in the value of the benefit streams to the country can be potentially compromised by two factors. First, if the utility of investment is not stationary, but rather changes over time as the country's macro- and social canvas changes, resource flows delivered years after planned may have an attenuated impact. Although this hypothesis was not tested in the context of the evaluation, it is raised here simply as a concern that has not been addressed in any of the loan documents analyzed. Second, if investment projects have the high rates of return that they are purported to have, a year delay, *sui generis*, will carry a sizeable opportunity cost. In other words, the greater the ratio of Benefit and

Cost NPV, the greater the opportunity cost of delaying execution. For the case of *Patacamaya-Tambo Quemado* loan (BO0106), if one believes the initial projections of 18 percent internal rate of return (and the PCR's findings suggest that sizeable benefits were in fact delivered), the opportunity foregone can be particularly high<sup>56</sup>.

- 4.7 A review of the Bank's documentation (PPMRs and PCRs) suggests that two main factors have led to execution delays. The first is related to problems originating from satisfying Bank requirements, including environmental impact assessments. The second stems from the Bank's failure to anticipate the impact of Bank-supported institutional reform projects on other investment projects, and to coordinate investment and reform with other agents, including the country. In the case of BO0106, both the PPMRs and the PCRs point to prolonged disbursement delays associated with the decentralization of the *Servicio Nacional de Caminos*, the institution that was charged with executing the roads project. This delegation of administrative functions to prefectures presented insurmountable coordination and technical difficulties that halted the project<sup>57</sup>. Decentralization of roads also transferred to the municipalities the responsibility for counterpart funds, which may have been an additional reason for execution delay<sup>58</sup>.
- 4.8 The preceding discussion notwithstanding, there is evidence of development impact in road construction. In the case of BO0106 an ex-post evaluation was done, comparing indicators before and after the project's execution. The before and after comparison done in the Ex-post evaluation show that road traffic increased (both national and between Bolivia and Chile), in some cases to the tune of 15% annually. In addition, a follow-up assessment of the project IRR suggested only a 3% attenuation between the projected and realized rate of return.
- 4.9 In electricity the Bank approved capital improvements in generation, transmission and distribution of power, mainly in the country's three largest utilities<sup>59</sup>. The project evaluated favorably in both the PPMRs and the PCR. It achieved essentially all of its outputs, albeit with delays related mainly to problems in procurement and hiring of contractors. With respect to the achievement of the objectives and outcomes, no data was gathered (measures of institutional strength, reliability of electricity and unmet demand), and the ex-post evaluation provided for in the loan document was not done. Furthermore, although an IRR was established ex-ante, with a very high 32%, a follow up IRR was not done, even though the project was reformulated. The PCR also did not attempt to measure any of the project's outcomes, nor were these tracked in any way by the Bank's monitoring system<sup>60</sup>. Despite this lack of information both PCR and PPMRs conclude that these objectives had been met; no explanation is given that would justify such a finding.
- 4.10 The Bank has been actively engaged in Bolivia's efforts to export gas, and in this specific infrastructure sector, although the Bank did not approve loans for the country during the programming period, it did approve a regional loan to

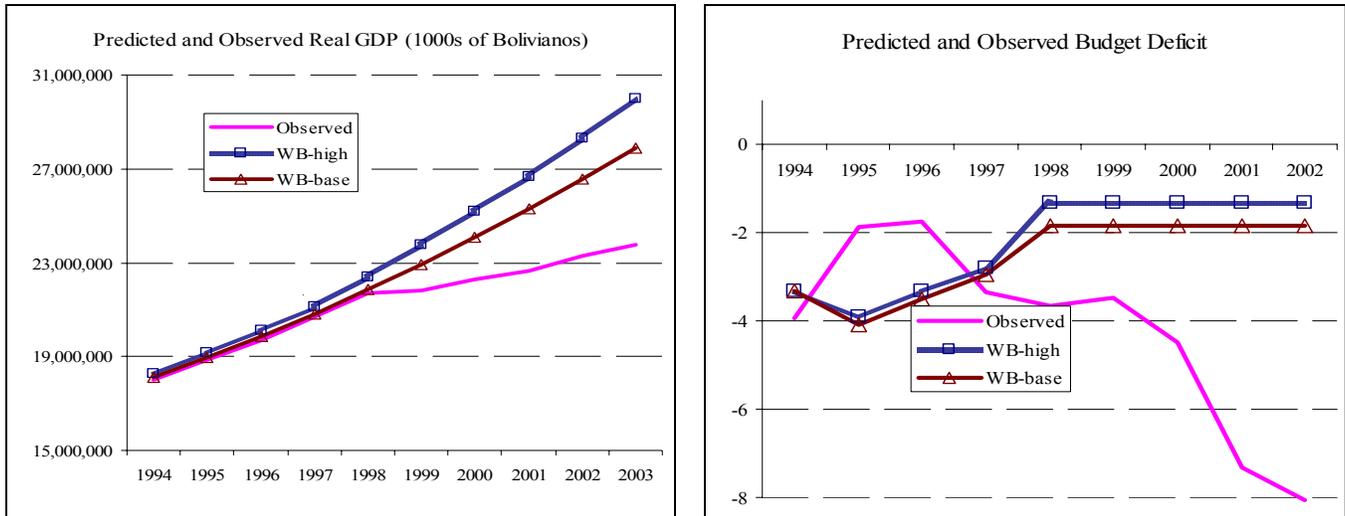
- cofinance the construction of the Bolivia-Brazil pipeline, for \$240 million dollars, in 1997<sup>61</sup>, through its private window facility (PRI).
- 4.11 The results of the regional operation are immediately identifiable, since the gas pipeline has provided an export gate for Bolivia to replace the expiring contract with Argentina<sup>62</sup>. The new pipeline doubled the value of gas exports, by increasing volumes and by virtue of the higher contracted price. This impact is, however, below the originally projected volumes, since Brazilian demand for gas was overestimated and delivered amounts have in fact been at the minimum take-or-pay level. This is relevant for two reasons. Since the volume capacity of the pipeline, when fully compressed is more than twice the take-or-pay volume, this implies that (i) revenue will be lower than originally projected and (ii) pipeline cost is significantly higher than would have been the case with a smaller diameter/compression delivery mechanism<sup>63</sup>. Given the private sector involvement, the first concern is the most important, since risks associated with profitability and cost are not borne by the government directly. However, regarding revenue, the unrealized projections have important financing implications to the country.
- 4.12 The distribution of benefits from gas exports is also of concern, and is currently a topic of public debate in Bolivia. Research finds that although the sector successfully attracts investment, the penetration of gas-related economic activity throughout the Bolivian economy is very limited, with highly attenuated employment and revenue effects<sup>64</sup>. In other words, the domestic employment and income multiplier effects of gas investments are not high.
- 4.13 Given the geopolitical changes in the Latin American natural gas market, it is evident that unless there are unanticipated positive shocks in the demand for gas in Brazil, exports will likely remain at or below 2002 levels. This implies that Bolivia will need to find alternative mechanisms of export<sup>65</sup>. One option, which was actively promoted by Bolivia with the support of the Bank, is to liquefy and export gas (LNG exports). This option has met with political resistance inside Bolivia, and has transformed itself into a polarizing domestic policy question. A second option would be to pursue export agreements with Argentina, seeing as Argentinean demand is likely to remain high and the country has roughly 16 years of reserves remaining. Bolivia is currently pursuing this option, but given the small export capacity to Argentina, this option, in the short run, will only increase exports marginally. In fact, in both these cases increased export scenarios are at best medium-term, and would require substantial capital investment.
- 4.14 The conclusion from the discussion above is that the Bank's interventions in infrastructure could have produced greater benefits than were ultimately realized. The Bank did much less than it had proposed to do, and in both energy and transportation the Bank's delivery was delayed. In addition, in the case of the energy transmission project the Bank collected no information on development objectives, nor did it conduct an ex-post evaluation to validate the very high ex-ante IRR projections.

## **B. State reform as a model for growth**

- 4.15 The discussion in chapters 2 and 3 suggest a change in Bank focus in Bolivia throughout the decade, and a gradual shift toward a strategy based on state reform. Whereas the Bank initially approved a lending profile directed toward capital investment, it later latched on to the prevailing thought of institutional change as a growth model. Principles such as redefining property rights, removing distortions of market regulation, and redefining the role of the state become more and more frequent in both Bank programming and Bank documents, which characterize these changes under the rubric of institutional reform. From a theoretical point of view activities that eliminate deadweight loss, increase economic efficiency, and reduce transaction costs are attractive since they carry the promise of a “free lunch”. This appeal was not lost on either the country or the multilaterals, which actively promoted the new approach<sup>66</sup>.
- 4.16 In this new approach to growth, which was a centerpiece of the Bolivia’s growth strategy, state reform figured prominently, in the first two administrations through the privatization program and in the last two administrations through efforts to decentralize, reform taxes, and reform the state’s civil service. The objectives of privatization were clear: increases in investment, increases in GDP growth, and reductions in public sector spending<sup>67</sup>. It was hypothesized that by removing the state from the business of industry and placing this in the hands of the private sector these objectives could be achieved. The second type of state reform were those related to was a stated objective of increased political participation of people in policy and of improving the quality and efficiency of public spending at the local level. These objectives were to be achieved mainly through the process of decentralization. The third fundamental change, related to the second one, was in the delivery of state services, focused on eliminating corruption, patronage, and thus reducing inefficiencies in the use of public funds. With differing degrees of intensity Bolivia executed all three types of reform, and the Bank supported all.
- 4.17 The ex-ante gains and theoretical appeal of institutional reform—and of state reform in particular—along with the gains of this reform process unfortunately turned out to be overstated. In different instances both the WB/IMF and the IDB projected outcomes that were disproportional to those actually observed. In the case of WB these were quantified, perhaps nowhere so explicitly as in the 1994 approach to reform<sup>68</sup>. Here we see an over-prediction in the new steady-state growth level for the country (at 5.5-6.0 percent in real terms), with a corresponding over-prediction in the level of debt sustainability of the country. In the case of the IDB an evaluation of progress toward goals is much harder to perform, as the review of projects produced little in terms of empirical projections: IDB projects consistently lack performance targets against which results can be gauged. However, growth and poverty projections in both the HIPC initiatives, for which the IDB was the largest multilateral contributor, are similarly overstated. In the case of HIPC I the estimates of the public sector deficit—with pensions—never exceeded 3.2%. In addition, the completion point

paper listed real growth rates of 5.5 percent starting in 1999. In HIPC II we see continuation in the optimism: steady-state growth rates of GDP at 6 percent.

**Figure 4.1: Growth and Budget Deficit Projections**



4.18 In summary, in all the documented instances in which the multilateral community has made estimates of growth—associated with lending—be it HIPC and PRSP, or internal assessments of possible gains by specific agencies, the projections have been of a steady-state level of growth of between 5.5 and 6 percent. These projections have been made in a country that had averaged real growth rates of only 2.7 percent and only 0.4 percent in per capita terms in the past 50 years. The attractiveness of projections that promise sustainable real growth rates that are more than twice those of historic averages is undeniable.

**Table 4.1 Macro shocks in Bolivia**

Decade	Climatological	Governance Average tenure of administration	Changes in policy	Terms of trade	Real exchange rate
1950s	1 serious	3.0	1	no data	no data
1960s	1 serious	1.5	3	none	none
1970s	1 serious	1.6	3	(i) other metals (i) tin (severe) and	one severe
1980s	1 serious; 1 severe	1.4	3	(ii) gas prices (severe)	two sever
1990s	1 serious; 1 severe	3.3	0	(i) soy prices	two moderate

Source: Various. See Annex 5 for details.

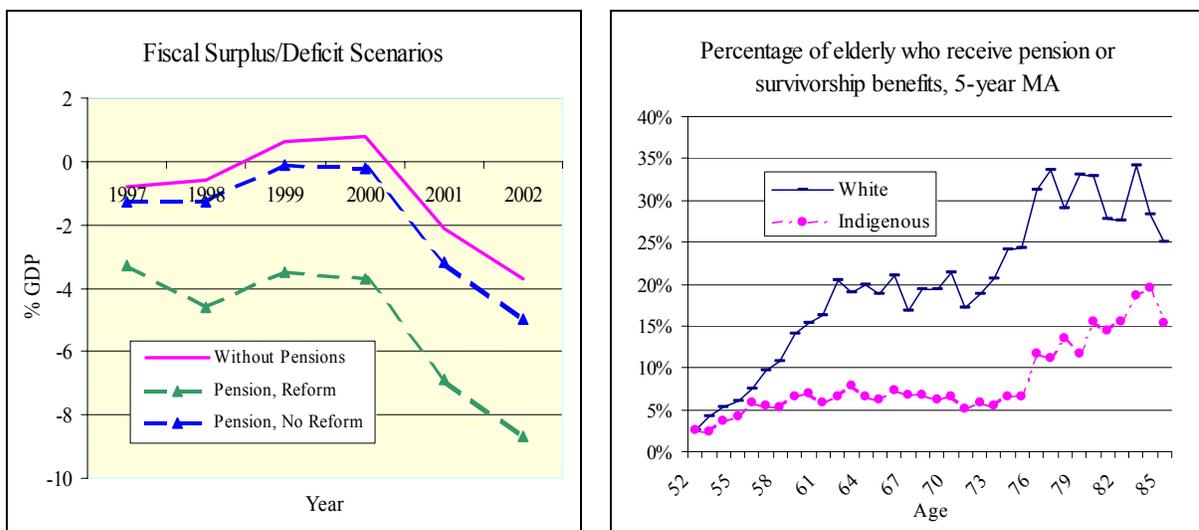
4.19 Part of the shortfall in growth and poverty targets, as well as related variables, such as fiscal deficits, can be linked to a number of large macro shocks that the country underwent throughout the decade, and particularly in the latter part. The El Niño of 1998 and the Argentine and Brazilian devaluations are perhaps the most important. However, from a historical point of view, the decade has, if

- anything, been one of the most stable since the Bolivian revolution. OVE's accounting of the incidence of macro-level shocks during the past 50 years finds the 1990s as a decade with relatively few shocks (see table below).
- 4.20 Although the World Bank was much more active in the privatization and pension reform in Bolivia, the IDB did support the process with a 1995 Bank sectoral structural reform and capitalization loan (BO0094) and by reimbursable technical cooperation (BO0170).
- 4.21 In terms of efficiency and productivity most of the privatization results were positive; in this respect the program was successful. There is evidence that privatization increased the quality of service delivery, increased the efficiency of operation, and increased firm productivity, but the evidence does not support the hypothesis that privatization increased firm profitability<sup>69</sup>. The process also attracted a large amount of foreign investment, and although much of this investment "boom" has receded, there are indications that new steady-state level of foreign investment is higher than before privatization, although one cannot separate the impact of privatization on investments in high growth sectors such as agriculture.
- 4.22 The above findings notwithstanding, the privatization process can be criticized on two main points. The first is with respect to equity. Although there is evidence both ways, most of the evidence that uses comparable data suggests that the groups that most benefited from the program were not the poor. Furthermore, the changes in service delivery fees also produces a regressive effect due to the fact that these decrease as a share of consumption with income. The results for rural areas in particular have not been as large as urban area results.<sup>70</sup>
- 4.23 The pension reform<sup>71</sup>, concurrent with the privatization, was fully supported (and partially designed) by the World Bank, in the form of an adjustment loan and a technical cooperation. However, the IDB also supported the country initiative through the privatization sector loan and technical cooperation. The justifications for transitioning from a PAYG to a fully-funded social security system were several, including (i) increase in the coverage of social security; (ii) stimulus for private investment, (iii) reduction in contingent liabilities; (iv) increase the correlation between lifetime contributions to social security and benefit payouts.
- 4.24 Unfortunately, due to problems in reform design, incorrect assumptions regarding the cost of transition from one system to the next, as well changes en route in the implementation of the new pension system, the reform immediately began to produce transition costs much beyond those originally predicted. This problem was exacerbated by the slowdown in the Bolivian economy, leading to lower revenues than expected, and a ballooning budget deficit. The sustainability problems alluded to above are now widely documented, but can be classified into three categories<sup>72</sup>: (i) cost projections based on incorrect and incomplete data and incorrect assumptions regarding demographics and the impact of policy

incentives, (ii) clientelism and state capture by the part of privileged sectors of society, both at project design phase and related to changes en-route, and (iii) corruption, fraud, and poor supervision of pensioners enrolled and benefits paid.

- 4.25 In terms of developing capital markets and spurring private investment, the reform was likewise unsuccessful. Due to an undeveloped equities market in Bolivia, the requirements that FPV place a large amount of the portfolio in government debt, and due to the large spread paid on government bonds, pension managers have essentially concentrated portfolios toward government debt<sup>73</sup>. This strategy has produced adequate returns on investment. However, it has been largely ineffective at attracting investment or at developing the country's financial markets.
- 4.26 Beyond the increased costs of transition and the failure to develop financial markets, the new pension reform was also unable to create incentives for those in the informal sector to participate. As a result, the enrollment in the pension system, according to all references reviewed, remained as unrepresentative as the original scheme, resulting in the exclusion of roughly 89% of the economically active population (PEA)<sup>74</sup>. There was no attempt to bring informal workers, who represent a majority of the economically active population, into the new, modern, Bolivian pension system. This lack of incentives hit particularly hard in the country's large indigenous population, who are almost exclusively involved in informal labor, creating a racial gap in the incidence of pension benefits.

**Figure 4.2: Pension Reform Outcome Indicators**



Source: Escobar (2003)

Source: OVE estimates based on MECOVI 2002

- 4.27 In sum, the pension reform was unable to reduce the contingent liability associated with changes in demographics and enrollment in the old pension system; on the contrary, in the short and medium run it has greatly exacerbated the program's fiscal costs, placing monumental strains on Bolivia's public finances. These substantial costs, borne by all Bolivians, have unfortunately

benefited a select group of Bolivians, as the pension system remains a segmented entitlement. Lastly, the pension reform has been unable to impact the quality of the country's financial markets.

4.28 The privatization reform was only the first in a series of reforms of the State. The other two were the process of decentralization, which is discussed in the context of the social sector, and reforms in governance at the central government level. The reform of state service delivery took off in the late 1990s, and constituted loans in support of (i) reform of tax administration, (ii) reform of customs administration, (iii) reform of justice, and (iv) reforms directed at sub-national public finance and investment. Meanwhile, centralized reforms aimed at budgeting, public spending administration and corruption control have been dominated by the World Bank initiatives, but have also counted with IDB support in the form of two loans.

Figure 4.3: Customs Revenue

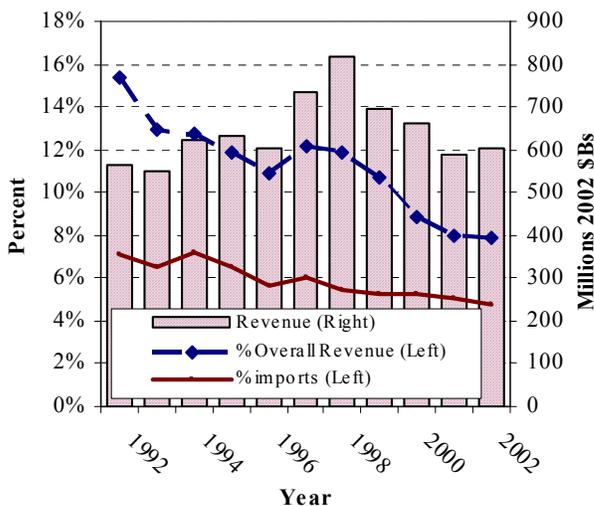
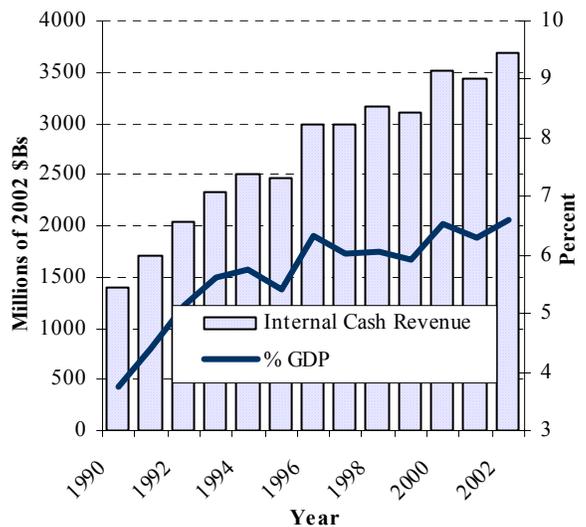


Figure 4.4 Internal Revenue



Note: internal cash revenue excludes offset taxes (*Valores*), hydrocarbon taxes (IEHD), transitory and special chapter (101, 150, 152, 160A) taxes.  
Source: INE, SIN

Source: INE

4.29 One of the successful experiences in state reform have been those related to revenue collection. Here the Bank supported a two-pronged approach: modernization of internal revenue and modernization of customs. The first intervention (BO0089) essentially consisted in a bureaucratic reorganization of SNII, the implementation of internal audits, updating of information systems, and a training program of employees. The outcome objective of the program was to improve efficiency by increasing revenues and decreasing evasion. The predicted efficiency gains, although not explicitly stated in the project document, were parameterized as part of the government's annual revenue projections, and typically was around 9%. Anecdotal evidence based on interviews suggests that

the gains in efficiency were systematically overstated<sup>75</sup>. However, at the aggregate level, data from the SNII shows that the collections as a percentage of GDP have risen appreciably<sup>76</sup>. As shown in the figure above the increase in internal revenue, excluding temporary tax programs and offset taxes (*valores*) increased appreciably. These improvements are, however limited to the first half of the decade. This result appears contradictory given the worsening fiscal situation in Bolivia. However, the budget deficit has in fact increased despite increases in collections. In other words, increases in collections have been unable to keep up with the increases in financing requirements.

- 4.30 The positive results observed with respect to internal revenue collection are not replicated in customs, even though the Bank's customs project is widely held to be a success<sup>77</sup>. The reform, undertaken jointly with the World Bank and the IMF, sought to make customs more efficient, reduce contraband, and increase revenues. Both the Bank's periodic evaluations, and the World Bank's evaluations indicate that the project executed well, counting with the full support of the Bolivian government. These subjective appraisals notwithstanding, the project failed to produce the increases in revenues. Even when one takes revenue as a percentage of imports, the two years since implementation have thus far been associated with decreases. It is possible that improvements in efficiency are still forthcoming, although one cannot discount the possibility that the elimination in the incidence of misreporting and fraud may have increased the *de facto* price of imports, producing some form of substitution effect. However, the evaluation did find that the project has verifiably improved service levels, at least as far as these are represented by transit time in customs.
- 4.31 Beyond the goal of achieving a more efficient mechanism for generating revenue, which one can argue that Bolivia is well positioned to achieve, state reform had as its stated objectives more far-reaching goals, including better provision of public services and more efficient management of public resources. Both as part of the customs and internal revenue reforms, as well as part of later interventions directed toward better budgeting and planning, better access to and quality of justice, and developing a merit-based civil service, the multilaterals, headed by the World Bank supported key governance reform elements<sup>78</sup>.
- 4.32 Attesting to the micro-level results obtained of those interventions is difficult, given the absence of indicators and the absence of information on baselines and targets. However, alternative evaluation strategies have been employed in order to circumvent these limitations. One example is the World Bank's 2000 Institutional and Governance Review, which used mainly opinion and interview data—both on an anecdotal basis and from surveys—to characterize the country's governance challenges. Another example is that employed by Scartascini and Stein (2004) as part of the PER. This consisted of comparing *de jury* and *de facto* elements of the state<sup>79</sup>. In both cases the results are conclusive: despite repeated (and costly) interventions by multilaterals, Bolivia has made limited advances in establishing a quality public administration, with key elements such as corruption control and transparency (both in expenditure management and in

human resource management), a merit-based civil service, and a results- and performance-based management. In some respect, the absence of these key elements, coupled with a sustained effort by multilateral to reform the State in the last 15 years, can only be construed as a substantial failure by multilaterals to deliver on the promises of their reform programme<sup>80</sup>.

### C. Social sector reform and investments in people

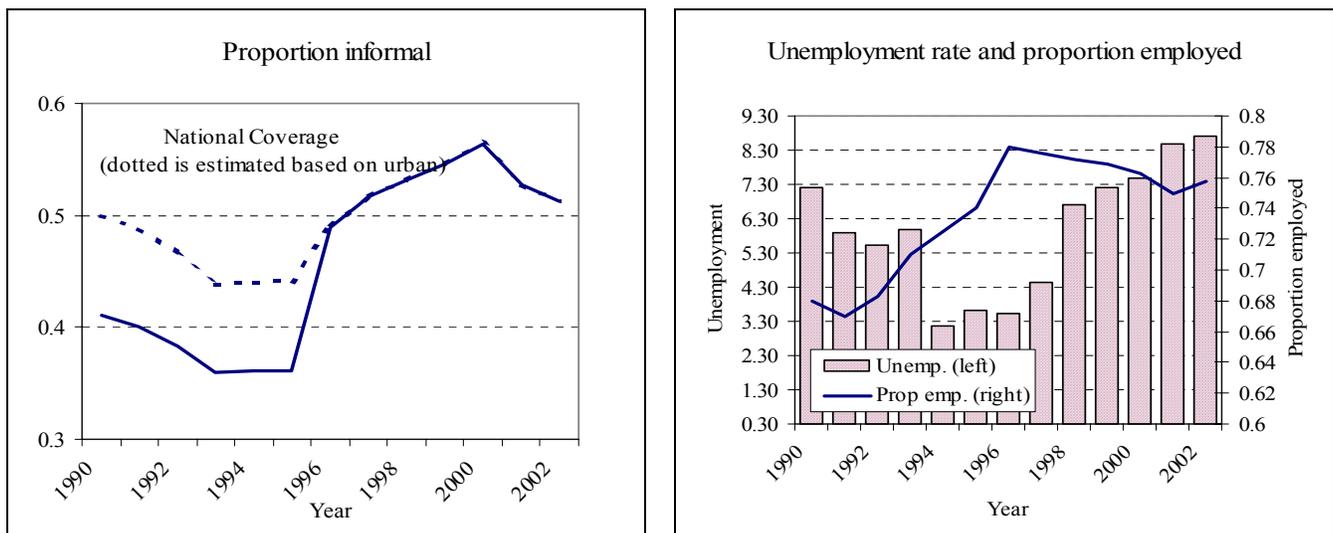
- 4.33 As was mentioned in Chapter 3, the pattern of investment in health, sanitation and education has accelerated during the second half of the decade. This change was prompted, first, by the ambitious decentralization program pursued by the first Sanchez de Lozada administration, and second by the push toward social investment of the Banzer-Quiroga administration. During the first administration, most of the education and health results must be considered in the context of the decentralization program.
- 4.34 The Bank's early support for these initiatives was focused on capacity building and training of sub-national units<sup>81</sup>, and on education reform, which contained a significant decentralization component. In terms of verifiable outcomes, the decentralization process has produced polarizing results. In terms of political participation there can be no doubt of the program's success. Political participation at the local level has led to increases in participation at the national stage, as grass-roots movements have increasingly secured representation in congress. In all other dimensions the program's results can at best be described as disappointing. In terms of efficiency, there is evidence that many of the functions that were transferred to sub-national units, such as water and roads management, were in fact better handled centrally, leading to a mismatch between local needs and infrastructure investment in these areas<sup>82</sup>. In some cases, such as the decentralization of road infrastructure, a combination of interest groups, lack of technical capacity, and inappropriate incentives led to a marked deterioration in road maintenance and in some cases backtracking in coverage.<sup>83</sup> In other cases, such as the decentralization of Health, the evidence reviewed points to deficiencies in human resources at the local level, coupled with an ambiguity in the roles assigned to municipal and central authorities. In particular, the model in which human resource control is kept centralized has led to inefficiencies in the organization of health services delivery<sup>84</sup>.
- 4.35 The results in terms of equity have not been looked at in depth, but the evidence reviewed point to a more unequal distribution of public investment between municipalities. An analysis of 1992 and 2001 census data also shows that this deterioration in the distribution of investment is also accompanied by deterioration in the distribution of social indicators by municipalities, such as *Necesidades Básicas Insatisfechas* and the municipal human development index (HDI)<sup>85</sup>. Furthermore, the misalignment between financing and spending also creates a soft budget for municipalities that can in principle lead to inefficiencies in investments<sup>86</sup>.

- 4.36 Beyond decentralizing the provision of social services, the Bank also supported a more comprehensive reform of the education system. The reform in fact contained a myriad of elements, ranging from infrastructure to curricula changes to changes in teacher allocation rules, improvements in the data collection capacity of the ministry and multiethnic education; the scope of the reform touched essentially every aspect of education. Throughout the period the Bank supported education activities mainly through two loans. The first is the 80 million dollar education reform project of 1994 (BO0133). The second is not an education reform loan, but rather a social investment fund that financed education projects also (BO0029).
- 4.37 The Bank's experience in education and with the education reform loan in particular, is generally held to be a positive one, both in Bank and World Bank publications<sup>87</sup>. The loan's overall objective was to change the education system from one that "limits development" into "an engine of long-term economic growth", where the indicators are the long-term economic growth trend. Under the more specific objectives, in the short run, they were to increase the external and internal efficiency of the basic education system<sup>88</sup>. In the long-term they were to achieve efficiency in secondary education also. The loan's original execution time was of eight years, a long time for an IDB investment project. Nevertheless, unlike the Bank pattern of systematically and predictably underestimating execution time, the project's execution was much more realistic, and as a result it was able to disburse close to schedule, thus far producing delays substantially below Bank average<sup>89</sup>.
- 4.38 The project delivered most of its outputs, including the establishment of an education monitoring system implemented by the new monitoring agency, SIMECAL. In large part, this component was responsible for the collection of data on education quality<sup>90</sup>. An additional comment is in order concerning the loan. As with the health reform case, the project was handicapped by the particular model for decentralization being implemented in which control of personnel and wages was kept at the central level, while decentralizing all other inputs to the local level<sup>91</sup>. This arrangement has been harshly criticized as it led to ambiguity and confusion regarding the roles of each party<sup>92</sup>.
- 4.39 The evidence points to a gradual improvement in the coverage and in the quality of education. The coverage rates for primary education have increased, was although much of this increase is observed before the program was implemented. Similar changes are seen in secondary education, in which gross enrollments rates, as calculated by the Ministry of Education, increase throughout the execution period. These results must be interpreted with caution since they are quite different from those obtained based on household surveys and from census data<sup>93</sup>. With regards to quality, at least to the extent that this is measured by test scores, the evidence points to a gradual improvement throughout the decade, as measured by performance on standardized tests<sup>94</sup>. This is in spite of the downward trend in many other Latin American countries. Improvements in desertion rates are also seen throughout the decade. For rural populations, where

- the education deficits were the greatest, the evidence points to larger impacts than in the urban areas. Indeed, in urban settings the overage profiles for 1995 and 2002 are virtually identical, suggesting modest changes in the distribution of dropout and repetition.
- 4.40 As mentioned previously, a major component of the project was to introduce multiethnic education. With respect to race and ethnicity, studies of repetition and dropout rates show a narrowing of the ethnic gap. However, the country still reports along with Guatemala, the largest differences between indigenous and non-indigenous in education outcomes. Both overage and attendance statistics show that very large differences still persist.
- 4.41 Health and Nutrition have also been key in the Bank's social sector strategy in Bolivia, with Bank support for the sector in three of the four programming cycles, usually in support of children and mothers. This is the case of the first health support program in 1991 (BO0056), the loan in support of the PAN (*Programa de Asistencia a Niños*), and more generally in the epidemiological shield approved in 1998 (BO0115). An evaluation of the results of these interventions is perhaps premature given that much of this has been in the last five years. Nevertheless, the evaluation did find important disconnects between observed outcome indicators. Whereas indicators of health care utilization (e.g. incidence of assisted births) and coverage (e.g. utilization of health insurance) have improved, the improvements in indicators related with health status have thus far lagged, and have in fact increased at a rate slower than they had historically, over the last twenty years. This is certainly the case with the incidence of stunting and with measurements of infant growth: two indicators that should produce improvements in the very short term<sup>95</sup>. In addition, the outcome results thus far for child development show improvements concentrated in the center quintiles (2-4), with very little improvement among either the wealthier Bolivians (who already have good indicators) or the very poor (who have the worst indicators). These findings are mirrored in negative assessments of the country's likelihood of meeting 2025 Millennium Development Goals in either child and mother's health.
- 4.42 At the macro level, most of IDB and World Bank interventions have at their core growth, development and equity goals, such as "to raise the standard of living of poor Bolivians" (BO0008, BO0029). Broad poverty and development goals are the primary goals of most IDB interventions and are also primary goals of the IDB's four strategies with the country. The problem, however, is that the micro-level social results have not been accompanied by results in poverty, employment or earnings. Although the empirical relationship between human capital and labor market outcomes is one of the most well-documented relationships in economics, in the case of Bolivia there is no evidence thus far that this relationship is producing pecuniary gains for Bolivians. Although it is certainly too early for one to expect education gains to produce the bulk of their anticipated impact—being that investments in human capital are long-term, evidence of an initial impact is still absent.

4.43 In the case of employment the opposite trend is observed—even among the latest, and more educated, cohort entrants: increases in unemployment rate (currently at 8%) and in the incidence of informal employment (currently at over 50% of those employed), even as the total proportion of Bolivians working is increasing (in other words, the increase in the labor force has outstripped the increase in employment). In addition, recent evaluations by CEPAL have shown that many of the purported equity benefits of even first generation trade liberalization reforms—benefits such as greater equalization in the returns to skilled and unskilled labor—have in fact gone the other way. The distribution of skill (and schooling) with respect to income has worsened, as labor market opportunities created over the decade have favored the wealthy and well educated<sup>96</sup>. The evidence so far raises questions as to how to optimize the labor market opportunities and returns to schooling for increasingly schooled Bolivians, and calls for a critical assessment of the optimal investment in human capital in an environment of dynamic labor demand conditions.

**Figure 4.5: Labor Market Indicators**



Note: Informal is defined as employed “*por cuenta propia*”, over a base of remunerated workers only. Homemakers and non-remunerated workers and trainees are excluded from the analysis. Values 1991 and 1998 are interpolations from their neighbors, since data was not available. Also, data prior to 1996 is only for urban centers. Estimates for national coverage are based on urban-rural comparisons from 1999-2002. Source: EIH (1989-1994), ENE (1995,96,97), MECOVI (1999-2002). For unemployment rates source is INE. The universe is population ages 25-55.

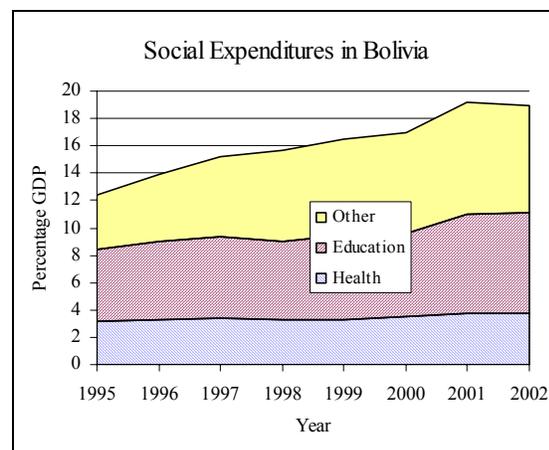
4.44 We have seen from the above discussion that the evolution of health and education indicators has improved in Bolivia. There is, nonetheless, the other side of the coin: public expenditures. Bolivia during the decades has seen a boom in social spending, which has increased from 12 to 19 percent of GDP. Much of this increase is related to the increase in pensions, resulting from the 1997 pension reform. Another portion of the increase can be traced to the HIPC, particularly HIPC II, which funneled social investment funds to municipalities.

4.45 This pattern of decentralization to municipalities is, however, producing unanticipated and worrisome results. The first results is, as mentioned previously,

instances of suboptimal investment decisions by part of municipalities. This in spite of three Bank operations designed to, precisely, improve municipalities' ability to select projects for investment and execute them<sup>97</sup>. In other words, despite the Bank's focused interventions on sub-national planning and management, a more efficient and responsible investment spending continues to elude the smaller and poorer Bolivian municipalities. Although a simulation of the impact of these inefficiencies on national accounts is beyond the scope of this CPE, given the substantial increase in sub-national spending, one can reasonably expect that costs of decentralization could persist and indeed worsen, particularly as the country continues its drive toward local control of resources. The second impact is an increase in the level of sub-national indebtedness, which is contributing to a deterioration in the country's domestic debt profile (see above).

4.46 Given the increases in the country's indebtedness in the last three years, it is doubtful that Bolivia can sustain any further increases in social spending. It is also doubtful that Bolivia would be able to sustain the present levels of social spending without a continuing infusion of concessional funds by bilaterals and multilaterals. Furthermore, past efforts at improving the efficiency of social expenditures have not produced any evidence of effectiveness, suggesting the difficulties inherent in realizing

**Figure 4.6: Social Expenditures**



Source: UDAPE (expenditure data) and GDF (Debt data).

efficiency gains, at least in the short run, through reform. As was seen in the first part of this chapter, these gains were greatly exaggerated in macro projections, and have been slow to materialize on the ground. It is likely, and in some cases demonstrably so, that the Bank's incursions into social sector interventions have in fact moved Bolivia's social indicators closer to those of its wealthier neighbors. Nor can one discount the importance of social development in non-pecuniary dimensions of welfare. However, the decade has shown that increases in social capital thus far have been largely offset by demand-side factors, preventing the same from producing wealth, or at least from producing wealth that accrues to those who have seen increases in their social capital. At some point the country and the Bank should consider a strategy to make social investment sustainability over a medium-term horizon. Thus far, this strategy has not coalesced.

## V. CONCLUSIONS AND RECOMMENDATIONS

- 5.1 The foregoing analysis has delved into a very complex combination of country policy, Bank programming dynamics and intent, intervention execution efficiency and effectiveness, from which one attempts to attest to the impact the Bank had in Bolivia, versus the impact that it could have had. All of this is set in the context of a country that to this day carries a legacy of pending economic and social achievements.
- 5.2 The Bank was found to have engaged the country in most reform and policy efforts. In doing so the Bank identified many of the country's development challenges, such as persistent poverty, low levels and quality of human capital, high transportation costs within the country and between its neighbors, low levels of capital formation, and poor government institutions. Despite this full engagement, the Bank's programming still did not identify, or help the country to address, other key development challenges, including the issue of ethnic and social exclusion, the country's dependence on foreign flows, and the challenges involved with the country's coca eradication program. In the case of social exclusion the Bank's engagement is present in the context of the education reform, but the topic does not receive a *sui generis* treatment until the 2001 approval of the PRSP PBL.
- 5.3 The Bank was also found to be in agreement with the country, both in its written documentation and in its revealed preference, in most of its sector reforms: the changes in Bolivia's lending pipeline have essentially paralleled the Bank's own priorities. Also, the Bolivia-Bank partnership has been a pioneer in development of new Bank projects, ranging from one of the first privatization sector loans, to one of the first Social Investment Funds.
- 5.4 We also saw that the Bank's strategy with Bolivia evolved over the period of analysis, from an approach based on physical capital and development of the private sector (including privatization), to a focus on state and institutional reform as a method to increase economic efficiency and obtain higher steady-state levels of growth. This approach was matched with an emphasis on social spending, which is seen throughout the last two programmatic cycles, and is very much in line with the Bolivian PRSP.
- 5.5 Regarding execution the Bank-Country nexus is found to have executed with fewer delays, fewer implementation problems, and average execution costs. The Bank's disbursements were also found to be both relatively predictable and acyclical, and the same disbursement was found to have fewer problems by auditors than in most other Bank countries. Therefore, although delivery has in many projects—most notably transportation projects—certainly been characterized by execution delays and problems, these problems are worse bank-wide than in Bolivia. In sum, the positive delivery results suggest a Country-Bank relationship characterized by cooperation, coincidence of objectives, and symmetries in preferences.

- 5.6 However, the evaluation also found that problems in lender-donor-country coordination are producing documented cases of execution failures. Similarly, anecdotal evidence suggests that the Bank's reporting, monitoring and procurement requirements are producing substantial transaction costs. Despite this anecdotal evidence, the evaluation found no attempts, either by the Bank or by the lender-donor community, to empirically quantify the magnitude of these transaction costs for Bolivia. Rather, efforts have centered on opinion surveys, which are of dubious utility to Bolivia.
- 5.7 The importance of programming and execution is presumably related to the realization of outcomes associated with Bank interventions. In this category, interventions results were found to be heterogeneous, yet on the whole disappointing.
- 5.8 Investments in human capital and social infrastructure have produced improvements across the board, but the evaluation found no evidence that these investments in human capital have begun to translate into income gains among the youngest generations, although these impact are admittedly longer-term. Nevertheless, the labor market available to new entrants in Bolivia is increasingly characterized by informality and depressed demand—particularly for the unskilled—potentially attenuating the education-earnings profile of new cohorts. In addition, the evaluation found no evidence that the privatization and state reform have produced broad-based growth. On the contrary, the literature reviewed shows that privatized sectors did grow and attract investment, but with noted reductions in employment. The end results is a set of reforms that have been unable to improve labor-market and earnings outcomes.
- 5.9 Interventions in infrastructure and productive resources have produced positive results, but in many cases these could have been substantially greater. In the case of road infrastructure we saw that the effectiveness of investments was potentially attenuated by poor coordination with decentralization efforts supported by Bolivia, the Bank, as well as other lenders and donors. In the area of energy the Bank's efforts have produced growth opportunities and increased exports, even if these ended up being less significant than initially projected. In the case of electricity infrastructure the Bank's actions coincided with an increase in coverage and production. However, the effectiveness of the operation in terms of an IRR was not validated since a follow up IRR exercise was not done, as required.
- 5.10 In state reform, the results are rated poorly given the Bank's inability to deliver on the expectations surrounding the intervention's purported benefits. One notable exception is the customs and tax reform, which have been able to increase collections (in the case of tax reform) and have improved the quality of public service (in the case of customs reform). However, in other state modernization projects, particularly those in support sub-national management and investment, the results have been disappointing. In the case of decentralization the evaluation was unable to produce evidence of gains in efficiency, and has produced evidence

- of increases in the inequality of social outcomes between municipalities, despite repeated Bank operations supporting management ability of municipalities. Furthermore, decentralization has in many instances had unanticipated (and undesirable) effects, with implications for the country's fiscal stance (debt) and for the execution of other Bank investment projects.
- 5.11 Although the pension reform was spearheaded by the World Bank, the IDB also contributed in the form of a sectoral loan requiring the establishment of AFPs. The review of the literature and results, both by Bank consultants, and by evaluations outside has revealed a reform that (i) produced a pension system as inequitable as the previous one and (ii) produced pension deficits that have compromised the country's fiscal sustainability.
- 5.12 The end conclusion falls naturally from the discussion above: during the decade the Bank has found in Bolivia a partner receptive to the Bank's development program, which in addition was able to implement, together with the Bank, this program with greater efficiency than most other Bank members. This receptive environment created a long window of opportunity for the Bank and country reform programme. However, the Bank was unable to fully capitalize on this opportunity. Rather, the expectations generated by the Bank and the other actors involved in the reform of Bolivia regarding the impact of this reform have not been realized. Given average growth results, the persistence of poverty and social inequities, as well as the continued institutional weakness in the country, coupled with a heavy debt burden and an increasingly complicated fiscal scenario, it is time for the Bank to reevaluate the nature of its involvement with Bolivia and critically assess the value added of its interventions.
- 5.13 OVE's first recommendation regarding the Bank's future engagement with Bolivia is that the Bank empirically characterize the benefits associated with the Bank's future lending program for Bolivia and the burden imposed by the same on the country. This recommendation is made operative through the following three components, all of which should be taken into account:
- a) Debt dynamics and IDB lending. The administration should either validate debt projections of other institutions, including associated growth parameters, or perform its own debt sustainability analysis. In either case alternate scenarios should explicitly model the likelihood of macro shocks. The results of this exercise should inform and be fully reflected in the Bank's next Country Strategy.
  - b) The transaction costs of working with the Bank. The administration should prepare and present in the next Country Strategy an analysis of the transaction costs associated with borrowing from the Bank, including an attempt to monetize these costs in present value terms. Procurement, monitoring and reporting costs, along with costs associated with coordination problems should be empirically addressed.

- c) Value added and project prioritization. Given the country's limited capacity for further borrowing, the administration should prioritize among different proposed Bank interventions. This prioritization should be grounded on a methodology that quantifies the short- and medium-term benefits associated with Bank operations and compares these with the costs of those operations. This analysis should be applied to future projects and presented to the Board at the time of project approval.
  - d) Relationship with other donors. As part of the Bank's efforts to coordinate and harmonize its activities and procedures with international cooperation agencies, the Bank should attempt to empirically measure the magnitude of different coordination bottlenecks, so that their relative importance can be assessed. The Bank should also assess the adequacy of existing mechanisms for donor coordination, particularly as they relate to themes outside social spending and poverty reduction.
- 5.14 OVE's second recommendation is that the Bank take into account the role of country-specific characteristics in the effectiveness of the Bank's interventions, particularly to the extent that additional reform is made part of the country strategy. This recommendation is made operative through the following components:
- a) Relevance of governance and politics. Produce an analysis of the likely impact of the country's political and governance dynamic on the execution and effectiveness of existing and proposed Bank activities. This analysis should inform and be fully reflected in the new Country Strategy.
  - b) Relevance of resource constraints. Produce a plan of study to analyze the impact of the country's geographic, natural resource, capital and human endowments and constraints on the country's growth prospects. Special attention should be paid to the decentralization challenge now facing the country, and the short-run costs associated with decentralization. This analysis should inform and be fully reflected in the new Country Strategy.
  - c) Social exclusion. Produce an analysis of the underlying causes of social exclusion among different demographic groups—particularly among indigenous peoples. This analysis should inform and be fully reflected in the new Country Strategy.

## Endnotes

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<sup>1</sup> See *Protocol for Conduct of Country Program Evaluations* (RE-271, 2002).

<sup>2</sup> There are no data on income prior to the 1970s; however, simulations based on the 1950 agricultural index produce high degrees inequality in land holdings (hectares per capita). For example, estimates of the Gini index for hectare size exceeded 0.95.

<sup>3</sup> The *Rosca* was a term used to describe the control of labor, fiscal and industrial policy by the country's three tin oligarchies. The Patiño oligarchy was the most successful of the three, owning tin extraction operations in Bolivia, as well as smelting and financing outfits both inside and outside the country. The other two were the Aramayo and Hochschild families. For more detail see Malloy (1971) and Dunkerley (1984).

<sup>4</sup> One should note that the nationalization of mining was done with compensation to shareholders of the three mining enterprises amounting to 27 million dollars.

<sup>5</sup> For example, the institution of forced labor, the *Pongueaje*, was eliminated.

<sup>6</sup> It is estimated that in the 14 years following the revolution only 20 percent of land changed hands. See Dunkerley (1984).

<sup>7</sup> UDAPE, "El Caso Boliviano". *Serie Estabilización y Reforma Estructural*. CIEDLA, 1993.

<sup>8</sup> The Superintendencia de Bancos de Bolivia was created in 1928, however it only operationalized in 1985 with the decree number 21060, which established a *new Superintendencia de Bancos y Entidades Financieras* (SBEF).

<sup>9</sup> For a review of the early reform process see Morales, Juan Antonio, "Bolivia and the Slowdown of the Reform Process," PSD Paper No. 7, 1995.

<sup>10</sup> One should note that although the EIF undoubtedly had positive effects on social investment and infrastructure, these benefits did not accrue to those directly affected by the stabilization policy, the group of state employees laid off during adjustment. Rather, they accrued to the poorer groups of society.

<sup>11</sup> Per capita growth rates from INE and from WDI differ in this point. WDI indicators show growth rates of 1.48, 2.20, 2.73, -0.87 and 1.61 for the period 1989-1993, while data sent to OVE from UDAPE indicate a different series: 0.46, -0.52, 7.16, 3.16, and -0.69.

<sup>12</sup> Debt reductions and reschedulings amounted to 738 million dollars between 1989 and 1992 (Global Development Finance).

<sup>13</sup> The fund created was the *Fondo de Capitalización Colectiva* (FCC). The capitalization program was also a way to transfer property rights and the control of state enterprises to private actors without transferring ownership per se. A full-fledged privatization program would have required constitutional change, and as such would entail a more complex political solution.

<sup>14</sup> One should note that the evidence on the efficiency of delivery and the effectiveness of investment selection is very much mixed. However, on some specific issues there is convergence in the results. For example, decentralization seems to exacerbate the inequities between communities, as poorer communities are less able to take advantage of their spending autonomy, and as local elites are more effective in exerting political pressures, and thus able to have a disproportionate role in local investment. In addition, decentralization has not been unable to reduce government spending; on the contrary, at least in the short run the evidence points to increases in overall labor costs. On the other hand, decentralization has in most cases led to greater access to public services by the most marginalized communities and in most cases decentralization has led to greater political participation and awareness.

<sup>15</sup> The IDB's early support of decentralization was more piecemeal, and somewhat belated, focusing on specific elements related to human resources, training, etc.. These include BO0170 (1995), which included provisions for institutional strengthening of municipalities and departments; BO0107 (1997), which helped municipalities and departments better manage pre-investment activities; BO0121 (1996) which had a component to help manage sub-national education and health investments. In terms of technical cooperations there has also been support, most notably for human resource management of civil service (TC9701071, approved in 1997). Decentralization was also supported later in period under review with BO0180 (2001), which laid down a comprehensive framework for reform, including technical assistance in

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the reform of local government finance and administration as well as investment activities. This program was developed to complement the World Bank structural adjustment loan on decentralization.

<sup>16</sup> The number of municipalities has since increased to 314.

<sup>17</sup> Indeed, the decentralization of infrastructure, particularly road construction, has been one of the most criticized aspects of Bolivia's decentralization.

<sup>18</sup> One of the requirements of multilateral debt relief under HIPC was that countries obtain corresponding bilateral debt reductions (usually under Paris terms).

<sup>19</sup> One should note that in the case of Bolivia the Bank independently introduced a social matrix that mapped debt relief to spending in the first HIPC initiative.

<sup>20</sup> See GN-1970.

<sup>21</sup> The principle of proportionality implied that institutions with the largest portfolios would be those with the largest reductions in NPV of debt.

<sup>22</sup> See Weller, Jurgén, Economic Reforms, Growth and Employment: Labor Markets in Latin America and the Caribbean, CEPAL, 2001.

<sup>23</sup> According to the documentation provided by UDAPE, the improvement was of a reduction of 14 percentage points in the incidence of unmet basic needs. This measure is, however, not a measure of monetary poverty. It includes five criteria under which a household would be considered poor: (i) if there are school age children not in school, (ii) if there are more than 3 people per room, (iii) if the household lacks basic sanitation and sewerage services, (iv) if the dependency ratio is of 4 or more, (v) if the household construction is inadequate. This measure is increasingly being used as a complement to the poverty line methodology, however, its implementation, to date, still remains as varied as the poverty line, with different statistics institutes making country-specific adjustments in the methodology. This makes the comparability across countries difficult. The Human Development Index has also gained prominence—but as a complement to GDP per capita. It is an average of (i) the life expectancy, (ii) the average of functional literacy and primary and secondary enrollment, (iii) and real per capita income. See *World Development Report*, 1990.

<sup>24</sup> There is no evidence that the more educated cohorts have seen increases in income vis-à-vis prior, less educated cohorts. Of course, it is not possible at this early stage, to disentangle negative macro shocks from possible gains to human capital. Whether this effect will be produced later in the age-earnings profile is an empirical question that cannot be answered at this time.

<sup>25</sup> It is also noteworthy that net flows have also turned negative in the last four years of the decade, due to maturing loans.

<sup>26</sup> The evaluation will also rely on these documents, seeing as they are the primary source of information that the Board will consider regarding the IDB's strategy with the country.

<sup>27</sup> The Global Multisector was BO0088. The PBL was BO0110.

<sup>28</sup> For a description of the FSO normative see GN-2101. Also see RE-279 for a review of the allocation rules.

<sup>29</sup> FSO was always reauthorized by the Board, and the allocations between reauthorizations have not varied between countries since most D2 countries utilized the full amount of their allocation, mainly due to the fact that any unused allocations would be forfeit until a new reauthorization. This created the incentive for FSO-eligible countries to draw on the maximum available FSO, so as to retain full eligibility.

<sup>30</sup> The Duncan index of dissimilarity: a reading of zero represents perfect match while an index of one represents no match. The result is a high degree of sector approval match between Bolivia and the IDB. Bolivia's programming scores a 0.3 on the Duncan index, indicating essentially that 70% of the sector's share of approvals was the same in both groups. In other words, if 30% of approvals Bolivia's approvals were shuffled into different sectors during the decade, the country and Bank's approval patterns would be identical.

<sup>31</sup> This problem is not evenly distributed throughout sectors. The infrastructure sector in particular had a low 26% approval rate, as transportation projects were postponed from one programming cycle to the next.

<sup>32</sup> Ex-ante evaluability is measured by an ex-ante index, composed of a simple average of the proportion of project objectives with indicators, baselines, milestones and targets. In practice the presence of indicators and baselines were found to be most important, in the sense that they are better predictors of project execution problems and outcomes.

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<sup>33</sup> The evaluation identified projects in which ethnicity was present as part of the investment activity. The most relevant case is the discussion of bilingual education in the context of education reform, which eventually led to a multiethnic curriculum.

<sup>34</sup> In the case of labor market and product market liberalization, there was ample evidence of the risk of changing the return to skill. A few examples of why this could take place are driven by the HES-Stolper-Samuleson model (would predict a decrease in the return to skill), in the context of Stokey's capital signaling model (that would predict increase returns to skill), as well as other models based on technology transfers and information asymmetries that have ambiguous predictions. In the case of decentralization the evidence suggesting that (i) decentralization might lead to increased state capture at the local levels by those well-to-do and (ii) decentralization could disproportionately benefit those municipalities with higher capacity to invest own resources. These risks are, nevertheless, never raised in the programming documents. In both these cases the evidence now suggests that reforms may have led to increases in regional (and derived) inequalities.

<sup>35</sup> Coca production represents a very important source of income for an unskilled and poverty-stricken group. Therefore efforts to eradicate the coca industry are met with a twofold cost: (i) the direct cost of eradication, which has mostly been covered by USAID grants and (ii) the opportunity costs of coca growers of finding an alternate source of livelihood. Estimates of the impact of coca on output vary by study and methodology, but were found to range between 1.5 and 3 % of GDP. However, the literature reviewed in this area has been limited to computing the size of the sector rather than to simulate the impact of coca eradication on other sectors, both negatively through "multiplier effects" and positively through employment effects. Second, the issue of eradication has been tremendously divisive. This is particularly important since the groups most affected by the eradication efforts have been indigenous coca growers; the issue has created a divide along racial lines. These two risks affect most important country initiatives. From a fiscal point of view, it implies fewer resources available for other programs. From a real economy point of view it represents an increase in rural unemployment and a decrease in rural earnings.

<sup>36</sup> One should note that the evaluation's search of Bank studies and Technical Cooperations during the period found no evidence that this was actually done.

<sup>37</sup> Economic and Social Progress in Latin America, 2000, p. 163.

<sup>38</sup> A second *Dialogo Nacional* was implemented in the context of the PRSP.

<sup>39</sup> The supervision index is essentially the proportion of inspection and administrative missions that are required and done, where the higher the index (bounded between zero and one) the higher the compliance.

<sup>40</sup> See technical note in annex, "Timeliness of Delivery", for details.

<sup>41</sup> One should, however, note that costs incurred by the country, related to coordination, planning as well as satisfying Bank norms and procedures regarding procurement and other matters are absent in the statistics above. During the evaluation a search was made of bank documentation, research, or study on the issue of "additionalities" that investment project impose on Bank, in terms of coordination, costs associated with meeting Bank norms, etc. execution. No study was found, nor was any evidence found of attempts to measure the costs associated with working with the Bank.

<sup>42</sup> Both measures are contaminated with error. As far as preparation costs are concerned, these only include costs directly assignable to a particular pipeline number. Activities associated with multiple projects, or other Bank products are not included. They also do not include any expense beyond personnel and travel costs, and even in these cases exclude costs associated with consultants who do not report billable hours. Execution costs are complicated due to the indeterminacy in classifying costs. As a result, costs that were reasonably interpreted to be executing unit costs were identified; these represent our measure of execution costs.

<sup>43</sup> The elasticity of cost with respect to approval amount, from a simple double-log specification, is 0.69 for execution costs and 0.51 for preparation costs. One should also note, as was pointed out by ROS/PMP's comments on the first draft, that preparation costs from the OPRCOS might not correctly reflect projects whose preparation was financed with *TC Fondos*. The matching of OPR hours with sources of funding is, however, outside the scope of this evaluation.

<sup>44</sup> It should be noted that assumptions have to be made regarding the interpretation of findings. In the case of auditor's findings, disbursements can be classified as "qualified", indicating that some substantive degree of non-compliance with Bank procurement rules was found. This does not necessarily imply that disbursements were not inefficient, nor does it necessarily imply that funds have been diverted from their

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intended use. Non-compliance with procurement procedures can be due to a myriad of factors. Conversely, the most ubiquitous forms of inappropriate use of funds, such as overpayment for services, are not tracked with Bank procurement procedures; rather, this type of control is left up to the country's in-house audit mechanisms—in the case of Bolivia this is the *Contraloría General de la República*. In the case of administrative expenses, the caveat is that these expenses are deduced from the project document's classification, which, as mentioned above, is not consistently coded. In most cases they are coded as "administración y ingeniería", but in a significant number of cases other classifications are used. Furthermore, the Bank's internal disbursement control system does not track country disbursements into each component, so that one is limited to looking at administrative costs covered by the loan, and not by the local counterpart.

<sup>45</sup> In some instances funds require the creation of executing units—this is the case of most IDB investment loans—that will require continuous coordination with the ministries they operate with. Even when funds do not generate additional bureaucratic agencies, they will still require compliance with varied procurement procedures, such as in IDB, World Bank, and most bilateral EU funds. Coordination is complicated further for two reasons: (i) to the extent that these procedures are not harmonized, government staff have to deal with multiple requirements, and (ii) the intersection of country and external requirements never match, leading to requirements in addition to country requirements in some instances and requirements that contravene country norms in others.

<sup>46</sup> See Voice of the Poor and Taming of the Shrew: Evidence from the Bolivia Public Officials' Survey.

<sup>47</sup> In the case of the IDB and the World Bank these procedures are mostly harmonized. However, this harmonization is not present among other donors, including within bilateral EU donors, who typically have different rules regarding eligible expenses and regarding procurement procedures.

<sup>48</sup> Data from VIPFE.

<sup>49</sup> According to the PPMR, "*Si el Banco va a financiar mas operaciones de este tipo, la sugerencia es que en el diseño se acuerde un reglamento operativo/procedimientos "ad hoc" que flexibilice la ejecución para adaptarse a la naturaleza de la operación. En esta línea seria optimo establecer un mecanismo de desembolsos contra objetivos y no contra la revisión de procesos de gasto.*"

<sup>50</sup> See Nickson, Andrew, "Bolivia: A Country Case Study Prepared for the OECD DAC Task Force on Donor Practices", 2002.

<sup>51</sup> Note that regarding the participation of NGOs, the PRSP is still not taken as a participatory process. This is reflected in recent appraisals by CIDA (see The Canadian International Development Agency's Experience with the PRSP Process in Bolivia, December 2001) and of DAC regarding donor coordination. Furthermore, CIDA's evaluation of the PRSP identified numerous problems with both the paper and with the process. These include (i) the apparent contradiction between country ownership and the requirement of a poverty reduction paper in order to have access to HIPC resources, (ii) a funding gap that is not adequately addressed, and (iii) an objection to the usefulness of a "comprehensive" development approach, in favor of a more incremental approach.

<sup>52</sup> Unlike other countries (e.g. Dominican Republic), the CDF was implementation was not synchronized with National Dialogues. Rather, the first National Dialogue predated the CDF and the second was more tied to the Bolivian PRSP than with the CDF.

<sup>53</sup> The Bank reviewed the CDF initiative in its report "Lessons from the World Bank Experience with Consultation and Participation in Latin America and the Caribbean."

<sup>54</sup> If one looks at de-trended series—to take account of the fact that aid flows have different disbursement patterns in different periods—Bolivia ranks fourth.

<sup>55</sup> The quality and extent of data on multilateral disbursements did not allow a sector approach to be taken: the effort required to make investment categories compatible between LAC national accounts and IDB and other Multilateral disbursement classifications is beyond the scope of the CPE. For more details see the Background paper "IDB disbursements and Government Expenditures".

<sup>56</sup> In the case of BO0106 an ex-post evaluation was done, the results of which were used to compare to the baseline data of 1989. The simple before and after comparison done in the Ex-post evaluation show that road traffic increased (both national and between Bolivia and Chile), in some cases up to 15% annually.

<sup>57</sup> The Bank supported the decentralization with a \$800,000 TC (see TC9309479). The stated goal of the Bank's intervention was to "produce a properly designed and organized process to decentralize the road sub-sector in all departments of the country, while satisfying the need for access to rural areas".

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<sup>58</sup> Although the bank did not address this feature in the documentation reviewed, it was mentioned as a reason for execution delays in comments received by the Bolivian chair.

<sup>59</sup> The only other loan that was programmed in the sector, the phase II of BO0116, was not approved.

<sup>60</sup> The PCR did point out that the rate of return calculations made at the project's inception could be time dependent—the delays in execution would, therefore, have important consequences on the NPV of the project's benefit stream. This hypothesis was not looked analyzed by the Bank in any of its evaluation efforts. As for the other indicators measuring efficiency and reliability were not collected and reported in any systematic way. In addition, the creation of a credible counterfactual in this case would require looking at overall investments in energy by region, and also looking at expansions in both production and in installed capacity system-wide, and attempting to identify differences in the intensity of investment by regions through time. This exercise was not attempted. Furthermore, the electricity sector was privatized during the course of execution, so that the benefits of the project, which had originally accrued to state entities, were transferred to private utilities.

<sup>61</sup> The total cost approach 1.7 billion, and counted with WB, IDB, Andean Investment Bank, European Investment Bank, and the private sector.

<sup>62</sup> In fact, the agreement with Argentina that had been signed in the 1970s had expired in 1991. It was renewed in 1992, but at drastically reduced prices.

<sup>63</sup> The implication is that the rate of return on the pipeline investment will be lower for Bolivia. This may be even more relevant since Petrobras has acquired preferential upstream rights as part of the investment contract. This implies that most of the reduced volumes will be at the expense of Bolivian producers.

<sup>64</sup> For more on this topic see Anderson and Meza (2001), "The Natural Gas Sector in Bolivia: an Overview"

<sup>65</sup> Brazil's plan of constructing gas-fired generators along the Bolivian border is unlikely, since the energy crisis in that country has subsided from its 1998 levels. Brazil has also found large volumes of unproven gas reserves domestically, and therefore is apprehensive about expanding imports with Bolivia. At the time this report was produced, Brazil was actively seeking to change both the quantity of take-or-pay and the terms of payment in its favor.

<sup>66</sup> One should note that the evidence on development effectiveness provides little in the way of justification for such a growth model. Most research on the topic shows that aid is at best marginally related to growth and poverty reduction. Even the results of Burnside and Dollar, which suggested that foreign aid would be effective—but only with strong institutions, have since been shown to lack robustness (see Easterly et al 2002).

<sup>67</sup> See project document PR-0250.

<sup>68</sup> See for example World Bank, 1994, "Bolivia, Structural Reforms, Fiscal Impact and Economic Growth."

<sup>69</sup> On the down side, the increased in productivity has been as a result of reduced employment; the results with respect to profitability are at best mixed. See Garrón, Machicado, Capra (2003), "Privatization in Bolivia: The Impact on Firm Performance" ..

<sup>70</sup> See Ajwad and Wodon (2000); ESMAP (2000), "Introducing Competition into the Electricity Supply Industry in Developing Countries: the Case of Bolivia". Barja and Urquiola (2001), "Capitalization, Regulation and the Poor: Access to Basic Services in Bolivia.", however did not find regressive capitalization effects. See also Estache, Goimez-Lobo and Leipziger, 2000, "Utility Privatization And The Needs Of The Poor In Latin America: Have We Learned Enough To Get It Right?"

<sup>71</sup> Bolivia entered the 1990s with a pension system that covered a very narrow margin of the working population, comprising essentially of state workers and a select group of other formal economy workers. The pension system, originally designed in 1954, left the entirety of the informal sector and a large portion of the formal sector with no old age income security. In addition, by 1995 it had become clear that because of changes in demographics, evasion in pension contributions increases in informality—particularly among those entering the labor force—and reductions in employment, that the pension system would soon become unsustainable. The country's response to the pension quandary was to follow the example of Chile and Peru and migrate from a pay-as-you-go (PAYG) to a fully-funded social security system. The design was modeled around the reform of pensions done in Chile, the most pronounced difference being the utilization of "capitalized" assets in order to fund minimum old age benefits for those not affiliated with the Bolivian pension system. Individual retirement accounts were created from the funds from the previous pension

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system. These accounts were managed by two fund managers (AFPs). In addition, a special set of rules was set up to accommodate the transition of those who already contributed to the old system

<sup>72</sup> For detailed discussion of the technical factors that produced the gap between planned and executed costs see Escobar, Federico, “Pension Reform in Bolivia: A Review of Approach and Experience”, World Bank, 2003; Revilla, Ernesto “El Costo de la reforma de pensiones en Bolivia”, 2002; Martinez, “Programa de Apoyo a la reforma de pensiones en Bolivia”, 2002; IDB, “Programa Sectorial de Apoyo a la Reforma Fiscal: Propuesta de Prestamo”, 2003; World Bank, “Bolivia Public Expenditure Review”, Chapter 5, 2004.

<sup>73</sup> According to Escobar, 70 percent of AFP portfolios were in government debt in 2002.

<sup>74</sup> The coverage rate is of roughly 11-12 percent, which is comparable to the previous system’s coverage, and is among the lowest of any Latin American country.

<sup>75</sup> Gains (revenue increases) due to efficiency were estimated as: 9.0% (1999); 9.9% (2000); 10.0% (2001); 3% (2002); 5.0% (2003). Actual gains are estimated at roughly 3%. For a discussion on the budget process in Bolivia, including revenue predictions, see Scartascini and Stein (2003).

<sup>76</sup> The other internal revenue reform is BO0186, approved in 1999. Although the project’s original execution time has elapsed, the project is only 65% disbursed, and at the time of this report, there was insufficient data to attempt an evaluation of project impact.

<sup>77</sup> The Bank had two loan interventions and a technical cooperation. The first round of interventions succeeded in constructing additional customs houses and essentially failed in achieving the other project objectives, which culminated in a partial cancellation. The second intervention BO0159 is considered more successful. See, for example, “Results-based public management in Bolivia.”, draft report, 2002; and Lanyi et al, 2000, “Bolivian Customs Reform: A Case Study of Consolidating Democratic Institutions”.

<sup>78</sup> The World Bank had early interventions, including three consecutive public finance reform operations, in 1987, 1991, and 1997. In the case of the IDB see BO0177, BO0196, BO0180.

<sup>79</sup> See also Center for Aid and Public Expenditure of the Overseas Development Institute, 2002, “Results-based public management in Bolivia”.

<sup>80</sup> An argument made in virtually all evaluations of governance in Bolivia is that the solution to the public sector puzzle cannot be found in technical solutions—these were tried in the 1990s—but rather in eliminating the degree of “informality” in public administration. Technical solutions, such as the SAFCO law, change the *formal* dimension of institutions, checks and balances. However, if these are not followed what arises is a gap between the *formal* and *observed*. This gap is the degree of informality, and the larger the gap the more irrelevant are the reforms that only touch on the *formal*, while ignoring the measures practiced to circumvent the same. Based on this assessment, the World Bank and the IDB are renewing their push for reform. The question one is faced with is simple: if the reforms implemented in the 1990s were “incomplete” or in some sense were of the “wrong” nature, what certainty can one have that the new round is the “right” one? The most obvious way to answer this question is by basing it on empirical evidence both in Bolivia and outside. The present review has not unearthed a credible mass of evidence that would suggest that the new reform program is any more likely to achieve its development objectives than was the previous agenda.

<sup>81</sup> See BO0052, BO0107, BO0112, and later BO0180.

<sup>82</sup> See Faguet, 2001. “Does Decentralization Increase Responsiveness to Local Needs? Evidence from Bolivia”, *Center for Economic Performance Working Paper*.

<sup>83</sup> See Alonso-Biarge and Ortiz (2002) for a discussion of road infrastructure.

<sup>84</sup> See World Bank, Health Sector Reform in Bolivia: A Decentralization Case Study. World Bank, 2002.

<sup>85</sup> See Maceira, 2003. “Brecha de Pobreza, Decentralización y Alivio de Deuda en Bolivia”.

<sup>86</sup> See Weisner, Eduardo, *Fiscal Federalism in Latin America*. (2002).

<sup>87</sup> See Contreras and Simoni “The Bolivian Education Reform 1992-2002: Case Studies in Large-Scale Education Reform.” (2003).

<sup>88</sup> “External” efficiency is the degree to which the education system is responsive to society, where indicators are listed as drop-out rate, coverage of the system, average time-to-completion of grades, among others.

<sup>89</sup> The ratio of percentage of planned time already executed to percent disbursed is of 1.4, one of the lowest in the portfolio.

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<sup>90</sup> The project contained detailed baseline, milestone and target information on educational outcomes, which again is an exception for a project designed in 1994. Although this evaluability information was presented, the diagnostic presented was based on dated and sometimes incorrect information.

<sup>91</sup> In addition, the departments, who are non-elected representatives of the central government, were also given some authority regarding social infrastructure. This, again, created problems of coordination and distanced the observed infrastructure spending from community needs.

<sup>92</sup> In addition, interviews with those involved with the reform, both at the Bank and country level, suggest that the loan was much too complex, a fact that is often cited as a reason for execution problems.

<sup>93</sup> There is an issue of an apparent incompatibility between results obtained from Ministry of Education (MoE) administrative records and those obtained from household surveys and the census: the first shows a continuous improvement in coverage while the latter fails to show much improvement at all. For example, the MoE statistics show a change in net primary enrollment of 18 percentage points while census data show an improvement of only 7.6 percent. In general, MoE statistics are subject to error arising from double-counting (for example, when a student changes schools he may be counted twice) or under-counting students. They are also subject to error as the population projections based on the census need to be updated. On the other hand, survey and census data may not capture students because attendance is based on the reference period. However, in both of these cases, these errors should difference out when one looks at changes over time. The fact that the differenced statistics are so far apart suggest that one of the two sources contained measurement error that varied over time. Although an analysis of the source of this error is beyond the scope of the CPE, one should note that the education reform changed both the technology for counting and maintaining student attendance, as well as the incentives structure for counting students (i.e. enrollment is now more closely related with teacher availability). Either of these factors could be responsible for changes in the way students are counted over time in MoE data. This discrepancy is also found when looking at other measures such as overage. The levels of overage are also significantly smaller in both census and household data than would be consistent with the reported improvements in attendance, dropout and repetition.

<sup>94</sup> Note that SIMECAL has conducted annual evaluations of secondary school, based on exit exams. Although this only covers 30% of students (those who finish secondary) it is emblematic of the improvement in the quality of education throughout the decade. A second source of information is from the Laboratorio—see Preal, 2001, “Quedándonos Atrás: Un Informe del Progreso Educativo en América Latina”. This evaluation, again based on primary and secondary test scores, places Bolivia in the Latin American average.

<sup>95</sup> See World Bank, Poverty and Nutrition in Bolivia. World Bank, 2002.

<sup>96</sup> Weller, 2001 and Duryea and Szekely. “Labor Markets in Latin America: A Supply-side Story”, 1998.

<sup>97</sup> See Faguet (2002). Also, estimates of planned and executed budgets at the municipal level point to serious deficiencies in planning.