



**RE-391**

***Country Program Evaluation:  
Bolivia 2008-2010***

***Office of Evaluation and Oversight, OVE***

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## ABBREVIATIONS

ABC	Administradora Boliviana de Caminos [Bolivian Highways Administration]
BCB	Banco Central de Bolivia [Central Bank of Bolivia]
BCS-BO Bolivia	The Bank's country strategy with Bolivia The Plurinational State of Bolivia
CAF	Andean Development Corporation
CBO	The Bank's Country Office in Bolivia
CPE	Country program evaluation
EIU	Economist Intelligence Unit
ENDESA	Encuesta Nacional de Demografía y Salud [National Demographic and Health Survey]
FSO	Fund for Special Operations
GruS	Grupo de Socios para el Desarrollo de Bolivia [Bolivia Development Partners Group]
IMF	International Monetary Fund
MAS	Movimiento al Socialismo [Movement To Socialism]
MECOVI	Program for the Improvement of Surveys and Measurement of Living Conditions
MIF	Multilateral Investment Fund
MSMEs	Micro, small, and medium-sized enterprises
NDP	National Development Plan
OC	Ordinary Capital
OVE	Office of Evaluation and Oversight
PBL	Policy-based loan
PCR	Project completion report
PMR	Project monitoring report
PPMR	Project performance monitoring report
TC	Technical cooperation

## INTRODUCTION

This Country Program Evaluation (CPE) is an independent assessment of the effectiveness of the Bank's program with the Plurinational State of Bolivia (Bolivia) over the span 2008-2010.

The CPE was produced by the Office of Evaluation and Oversight (OVE) using the protocol set out in document RE-348-3.<sup>1</sup> Its aim is to provide the Bank's Board of Executive Directors with an independent review of the execution of the Bank's country strategy with Bolivia<sup>2</sup> (BCS-BO) and draw lessons to enhance the future program's effectiveness.

OVE evaluated the programming exercise's *intent*, its *relevance* to stated country and Bank priorities, country program delivery *efficiency*, *coherence* of the products used by the program, and the ultimate *development impact* of the Bank's actions. This being the third Bolivia CPE produced by OVE, the evaluation team also assessed implementation of the recommendations made in the previous CPEs.

Field work and considerable data analysis were required to produce the CPE. In interviews in Bolivia the OVE team spoke with senior government officials, civil society representatives, and executing unit staff. Staff at the Bank's Country Office in Bolivia and at Headquarters were interviewed as well. For its results analysis OVE looked mostly at studies and statistics provided by the Bank and the Bolivian government, supplemented by secondary source data.<sup>3</sup>

Portfolio performance was compared against the Results Matrix derived from the Bank's country strategy and projects. The CPE compared the BCS-BO covering the review period against country needs and evaluated the Bank's performance on the four 2008-2010 country strategy pillars: (i) productivity, employment, and infrastructure; (ii) social protection and water and sanitation; (iii) opportunities for the majority and development with identity; and (iv) institution-strengthening at the national and decentralized levels.

The CPE comprises an executive summary and four chapters. The executive summary presents OVE's conclusions and recommendations. Chapter I discusses the context in which the country program was devised and delivered, summarizing the key features of the country and how they shaped the development challenges it faced during the period. Against that backdrop, Chapter II looks at the priorities and objectives the country had charted in its strategy dialogue with the Bank, assessing the relevance and coherence of the resulting program. Chapter III examines the effectiveness of program execution, and Chapter IV evaluates the qualitative dimensions of the Bank's program and its overall development effectiveness.

## EXECUTIVE SUMMARY

An essential consideration in a review of the development of the Bank's country strategy with Bolivia (BCS-BO) for 2008-2010 is the set of sweeping economic and social changes that followed the advent of the Evo Morales administration. In contrast to the previous-cycle strategy that had viewed the prevailing scenario as transitory, the BCS-BO 2008-2010 was designed with sufficient flexibility to adapt to the country's new political and societal dynamics.

Against that backdrop the Bank had identified a two-phase logical sequence for delivery of the country program. The first-phase focus was the performance of active loans and a limited number of projects mostly in the areas of productive infrastructure, water and sanitation, productivity, and housing. The plan, once the concrete results of the Constituent Assembly were known—particularly as they affected decentralization and the State's role as economic agent—was to launch a second implementation phase, setting out a menu of options in the strategic areas proposed.

### **A. Programming**

With regard to overall programming intent, the evaluation revealed that the strategy's flexibility and proactive approach enabled it to center on traditional investments and then move to institutional issues.

The Bank's operations program had included 16 loans, but 88 new projects were approved, only 11 of them envisaged in the strategy. Although no grants (MIF, investment grants, nonreimbursable technical-cooperation operations) had been proposed in the operations program, these made up 80% of total approvals by number (70) and 20.3% of Bank funding. Importantly, the Bank's Office of Evaluation and Oversight (OVE) has found that, in practice, the resource allocation model for nonreimbursable technical cooperation and grant operations administered by the Bank, which is characterized by uncertainty as to the amounts and availability of resources, hinders the planning of such resources to achieve strategic objectives of the country program.

At the sector level, the BCS-BO had programmed no loans in the area of Opportunities for the Majority and Development with Identity even though this objective is fundamental in a country with as high levels of inequality as Bolivia.

### **B. Relevance**

According to the Bolivian authorities interviewed by OVE, in the government's view the Bank's 2008-2010 program did address relevant challenges and, overall, was aligned to the country's 2006-2010 National Development Plan (NDP). In fact, the majority of loans originated between 2008 and 2010 grew out of government initiatives complemented with Bank consultations. The government thus regards the Bank as a good partner to fund operations already considered relevant.

The Bank/country policy dialogue centered on Bolivia's development objectives. The Bank examined the NDP both overall and pillar-by-pillar, identifying the associated risks and challenges. Fifteen studies and sector technical notes dealing with the challenges the country was facing comprised the analytical base for the BCS-BO. Along with the government's development course and priorities the two sides addressed the main technical and sector

issues of concern. That analysis, along with the Bank's country-contribution potential, was the basis for the sector policy dialogue with government officials and civil society.

The evaluation found that the Bank still is a significant cooperation partner of Bolivia's. The Bolivian government is continuing to seek its financial and technical assistance to manage its biggest development challenges. However, in a country like Bolivia where the government has redefined the development pattern and the public and private sector roles in natural resource management, the Bank's structure has been seen to limit its offerings for the preparation and financing of projects for corporations with an equity structure in which the public sector holds a large share.<sup>4</sup>

The evaluation reaffirmed one of the previous CPE's conclusions: that the Bank's success relates mainly to its level of engagement and the value added it brings. The 2008-2010 strategy likewise kept the focus on areas where the Bank had extensive experience, such as infrastructure and delivery of basic services, but the Bank did not become a more prominent player in crucial areas for the country's social progress. In that regard the previous CPE had discussed the Bank's exit as a major player in education in Bolivia, and one of its recommendations had been to keep up the Bank's presence in the education sector through technical-cooperation operations (TCs) and nonfinancial products. However, the evidence indicates that the Bank did not fully reengage this issue. In transportation, the Bank delivered value added on the financing side since it has been, and still is today, one of the sector's leading sources of finance. The Bank potentially will continue to find scope for work in that sphere, albeit with increasing competition from other international lenders and government revenues. Given that competition the Bank needs to generate new sources of value added.

### **C. Coherence**

According to the evaluation findings the Bank's operations portfolio was aligned to the Eighth Replenishment institutional targets for poverty reduction and social equity enhancement.

Poverty reduction was the overarching objective of the country strategy reviewed here, as it had been in the previous strategy cycle; this created continuity between the two country programs. However, three of the four BCS-BO components conspicuously are missing indicators pertaining specifically to poverty reduction and enhancing quality of life of ethnic minorities.

The distribution of 2008-2010 loan approvals by strategy pillar matched the programming intent. The fact that most of the loans were for the pillar of enhancing productivity and increasing employment and infrastructure suggests in some measure that the Bank still considers economic growth to be the most effective avenue for reducing poverty.

On the matter of harmonization, the Bank aligned its initiatives to the content of the NDP so as to tighten coordination with international cooperation partners in Bolivia. The Bank also belongs to the Bolivia Development Partners Group (GruS) which it is chairing in 2012.

### **D. Efficiency**

The evaluation revealed that, under the modernization and results-based management initiative that was one facet of the Bank's realignment, the Country Office in Bolivia achieved substantial efficiencies by making changes within its control. For instance, to stay

relevant and enhance performance the Country Office took significant steps to adapt the portfolio to the country's new landscape. The modernization exercise intended to shorten implementation times and expedite disbursements translated into the design of new operations matching the government's focus, completion of previous projects, and cancellation of components no longer relevant for the country. As a result of this initiative the average age of the portfolio dropped from 4.5 years in 2007 to 3.17 years in 2010. In addition:

- Thanks to the portfolio streamlining plan, annual disbursements rose from US\$43 million in 2008 to US\$158.6 million in 2010.
- Average annual approvals in 2008-2010 were double the previous strategy cycle average.
- Net IDB-country flows in 2008-2010 totaled US\$85.9 million. Disbursements increased 260% in 2009, reversing the downtrend of the prior period.
- Project preparation times also improved significantly. In 2004-2007 it had taken 19.1 months, on average, to prepare a Bolivia project; the average time in 2008-2010 was around 33% shorter. The Bolivia preparation cycle was seven months shorter than the rest of the Bank, but preparation and implementation costs have not come down accordingly: in 2008-2010 the Bolivia costs were practically double the Bank mean.

The above-cited improvements notwithstanding, the evaluation also found that the Country Office in Bolivia still lacks in-country specialists in critical sectors. An important consideration here is that Bolivia's demand for IDB support was increasing. Despite the increase in operations approvals and in active loans and undisbursed balances there was no increase of professional staff at the Country Office—indeed, the number dropped between 2008 and 2010. The resulting overburdening of the in-country specialists was compounded by the absence of specialists in specific topics such as indigenous issues, water supply, oil and gas, and energy. The average number of projects per technical specialist nearly doubled from 4.9 in 2008 to 8 in 2010 at a time when the portfolio was growing. These capacity insufficiencies create obstacles for portfolio execution and for promptly addressing country needs.

## **E. Results**

According to the evaluation findings, during the review period many of the project output objectives were met, but there is scant evidence of any significant end-impact of these accomplishments. The Bank performed well on tangible services like roads, water and sanitation, and housing, but its impact on development objectives such as poverty reduction, quality of life improvements, or health improvements could not be discerned. This left a gap when it came to gauging the Bank's effectiveness in addressing the country's major development challenges.

In terms of sustainability, the evaluation finds that the modest gains achieved might not be sustainable. The country's ability to achieve sustainable development will depend greatly on how natural resources management is integrated into decision making at every level.

The evaluation revealed that projects exposed to changes in the political environment had serious repercussions on their performance. The numerous cases of project implementation slippages and cancelled components may have been related mainly to restructurings of government departments or units, reorganizations of executing agencies, and the emergence of new government priorities. Likewise, projects and programs that pursued solutions based exclusively on market mechanisms did not perform well, such as operations in the agriculture, water supply, and housing sectors.

The evaluation underscored that a continuing proactive approach in pursuing dialogue with the government makes for better project performance. In the case of fiscal reform operations, enhanced Bank promotion and communication helped develop project ownership on the part of executing agencies, which in turn improved implementation performance.

Lastly, the evaluation found serious issues in the documentation of program and project outcomes. The previous CPE had brought out this same problem, and apparently little progress has been made. Generally, administrative and survey data and impact evaluations were missing for the projects reviewed. The results presented are drawn mostly from Bank-generated reports that lack detailed or disaggregated project data. Moreover, the transition from one Bank monitoring system (project performance monitoring report, PPMR) to another (project monitoring report, PMR) left a gap in the institutional memory. Because of this lack of information, a thorough analysis of the effectiveness of the operations delivered could not be done.

#### **F. Evaluability**

The evaluation reaffirmed the need for well-defined evaluability metrics to enable monitoring and evaluation of the strategy. The Results Matrix did contain a set of indicators from the NDP but provided no outcome and output indicators with which to measure the contribution of Bank interventions to meeting the expected targets. The evaluation team thus was unable to gauge the country development impact of the various Bank actions. For the most part the Bank program performance measures that had been provided lacked evaluability metrics, were output indicators, and had no clear relationship to the Bank program's objectives.

#### **G. Recommendations**

1. OVE recommends that the Bank continue to work in line with the main points of the previous CPE (document RE-340), particularly regarding the need to: (i) strengthen Country Office capacity; (ii) intensify the country dialogue, and (iii) review the value added of the Bank's policies and procedures to maximize its relevance.
2. With regard to the Country Office, a lack of technical specialists was found in certain subject areas that represent development challenges for Bolivia. Having a full team of specialists with expertise in those areas would at once help strengthen and deepen the country dialogue and better address client needs. This is particularly important in a country like Bolivia where close technical and administrative supervision has significantly enhanced portfolio performance. In this regard OVE recommends that the Bank:

- Assess its **personnel and resource allocations** to the Country Offices, particularly the Country Office in Bolivia, to see that they have the technical capacity and resources needed to ensure effective country work.
  - Review and update its **incentives package** for international staff assigned to the Country Offices. The Bank should align its incentive program to those of other international institutions, to be able to attract highly qualified staff.<sup>5</sup> The Bank's policy has not been updated since October 2007.
3. With regard to **programming**, OVE recommends that the Bank assess its strengths and configure its support accordingly. The Bank's role as Bolivia's development partner has been subject to a series of transitions in the current administration. In the social sector its support has declined, in part because of the growing prominence of bilateral cooperation and in part because the government wishes to see the Bank's engagement focused on the productive sector and infrastructure, where results are more tangible. In the long term the rising prominence of other multilaterals in the country also could affect the Bank's engagement. However, OVE found that the general consensus among country authorities was that in addition to the funding the Bank supplies it delivers value added in the form of its technical knowledge and expertise about the region. OVE thus recommends that the Bank consider all of these factors to focus its country program. Regarding planning of the technical cooperation operations program, the recommendations of the "Evaluation of the Bank's processes for managing technical cooperation" (document RE-364) should be considered, as they relate to the allocation of nonreimbursable resources and their management at a more aggregate program level, such that the resources can then be deployed within the country program in a way that responds nimbly to country priorities.
4. To that end, and to keep its country program relevant, the Bank should provide sufficient resources to keep up an ongoing **program of analytical supports for strategic sectors in Bolivia**. Such a program should be set out in detail in the Bank's strategy and reviewed periodically, incorporating analytical outcomes from the country dialogue and lending program. The following are four prospective areas of Bank action, if the government so requests:
- The Bank could help enhance the **quality of public spending** through support for the country's efforts to determine the economic and social returns of its growth model. Solid analytical knowledge is critical to optimize the targeting, efficiency, and effectiveness of government programs and policies and the Bank's programmatic support.
  - In the **social sector**, in light of the government's decision to fund initiatives primarily with budget resources, the Bank should emphasize **technical dialogue with the sector**.
  - In the **private sector**, it is recommended that the Bank **analyze the opportunities and constraints for working with this sector** and chart its program in line with the country's development objectives. Moreover, the

recommendation in relation to enterprises with an equity structure in which the public sector holds a large share<sup>6</sup> is for the Bank to review its offerings with respect to this intervention modality. Specifically, it is recommended that the Bank review and, insofar as possible, adapt its instruments and procedures to support such enterprises using non-sovereign guaranteed modalities.

- Lastly, in the **fiscal reform** area, the Bank could use its nonfinancial products program to assist the country in identifying and analyzing fiscal alternatives. The shift in the Bolivian economic model has created an opportunity for the country to introduce a fiscal model that will help program public expenditure across economic cycles, to ensure that the current investments in accordance with the NDP will be feasible and sustainable and provide a framework for intergenerational management of revenues from the energy sector in particular, and from the sustainable use of natural resources in general.

## I. CONTEXT DURING THE PERIOD

### A. Introduction

- 1.1 The reelection of the current administration gave continuity to the changes sparked by the economic and political development model introduced in 2005. For more than two decades, six successive administrations had sought to implement economic and institutional reforms consistent with the development model generally known as the “Washington Consensus.”<sup>7</sup> Despite these reforms, there was no obvious progress in reducing the poverty and inequality that afflicted the majority of the population. The result was growing dissatisfaction with the previous model, which opened room for alternative political proposals such as the Movement To Socialism (MAS) led by Evo Morales.<sup>8</sup>
- 1.2 The historic levels of popular support for Morales offered a possible institutional way out from a turbulent period in the country’s democratic history (see Annex 1.1).<sup>9</sup> They have also created an opportunity to attack the problems of poverty and social exclusion. The arrival in power of the MAS has meant the culmination of a quest for political participation on the part of the indigenous population, which accounts for around 60% of the country’s total, and which had been marginalized from any meaningful voice in previous governments.<sup>10</sup>
- 1.3 The Government Plan signified a break with the previous economic model. Contrary to the orthodox policies of predecessor governments, the new administration has sponsored a greater government presence in the various sectors of the economy. Thus, it has proclaimed to the right of the Bolivian State to administer the country’s natural resources in order to steer production and the revenues from their exploitation to the benefit of the neediest segments of the population. Among the most important changes have been the approval of a new constitution<sup>11</sup> and the nationalization of natural resources.<sup>12</sup> The new constitution defines the role of the State in the economy and in society, while according a series of independent rights to subnational governments and to indigenous communities.<sup>13</sup>
- 1.4 The implementation of this new State is still a work in progress, and the legislative body is still pending approval. In terms of nationalization, the government has so far nationalized firms in the hydrocarbons and mining sector and also in telecommunications and electricity. The boost in government revenues from these nationalizations has sparked a national debate over their administration and subsequent distribution to the country’s different regions. The new vision of the State has evoked opposition in some parts of the country, even in sectors previously allied with the government.<sup>14</sup> This may be a significant factor in the future political and economic stability of Bolivia.

### B. Economic, social and institutional aspects

#### 1. Main macroeconomic indicators

- 1.5 Over the last five years, the Bolivian economy has shown considerable improvement. Real GDP experienced remarkable growth, averaging 4.6%

annually (see Table 1.1). This growth was driven by government spending, construction, and exports (primarily hydrocarbons and minerals). Of particular note is the fact that in 2009, the year in which South American countries were hardest hit by the international crisis, Bolivia had the highest GDP growth rate in the region, at 3.3%. Despite this progress, Bolivia continues to face tremendous challenges to its development.<sup>15</sup>

- 1.6 The Bolivian economy was not significantly impacted by the recent international financial crisis. For one thing, the country's financial system was little affected, mainly because it is not tightly integrated into international capital markets. Moreover, the unemployment rate has not worsened significantly.<sup>16</sup> On the other hand, while the trade balance has shown positive results since 2006, there was a moderate but evident impact in the real sector as a result of falling exports in 2009, reflecting the worsening terms of trade and the falloff in external demand as a result of the financial crisis (see Annex 1.2).<sup>17</sup> Inflation has also been a cause of concern, ranging between 10% in 2008 and 0.3% in 2009, before rising to 7.2% for 2010.

**Table 1.1: Bolivia: Main Economic Indicators (2006-2011)**

	2006	2007	2008	2009/e	2010/p	2011/p
<b>MACROECONOMIC INDICATORS</b>						
Nominal GDP (US\$ billions)*	11.5	13.1	16.6	18.2	19.4	22.4
Real GDP (annual % change)	4.8	4.6	6.1	3.3	4.0	4.0
Inflation (%)	4.9	11.7	11.8	0.3	7.2	3.5
Unemployment (%)*	7.8	7.5	7.5	8.5	8.3	8.0
Current account balance (% of GDP)	11.3	12.0	12.1	3.5	2.6	2.0
Trade balance (% of GDP)	9.2	7.5	8.8	2.5	1.7	1.7
<b>FISCAL INDICATORS</b>						
Total revenues (% of GDP)	34.3	34.5	38.9	32.5	34.3	34.7
Revenues from hydrocarbons (% of total revenues)	33.0	30.0	40.6	30.9	n/a	n/a
Public sector expenditure (% of GDP)	29.8	32.8	36.5	32.6	34.7	34.7
Current expenditure (% of total public sector expenditure)	19.6	20.0	23.0	22.4	24.0	23.4
Capital expenditure (% of total public sector expenditure)	10.2	12.8	13.4	10.2	10.8	11.3
Fiscal balance (% of GDP)	4.5	1.7	2.8	0.1	-0.3	0.2
Non-hydrocarbons fiscal balance (% of GDP)	-5.7	-5.9	-8.4	-8.3	-7.7	-8.7
<b>DEBT INDICATORS</b>						
Public debt (% of GDP)	55.2	40.9	37.5	39.4	37.4	36.1
External debt (% of GDP)**	28.2	16.7	14.5	14.9	14.9	n/a
Net public debt (% of GDP)	41.9	26.8	20.6	19.6	18.3	16.9

Source: International Monetary Fund; \* Economist Intelligence Unit; \*\* Central Bank of Bolivia.

- 1.7 The government implemented effective countercyclical fiscal and monetary policies. On the fiscal front, it held the level of current expenditure virtually unchanged despite the decline in revenues (see Table 1.1). From the beginning of its mandate, the government's fiscal policy has been oriented toward increasing

social spending and investment in order to move forward with its National Development Plan (NDP). While there was some shrinkage in total expenditure in 2009, equivalent to nearly 4% of GDP, current spending (primarily on government payroll, pensions, and social programs) retreated by only 0.6% of GDP, suggesting that the government sought to cushion the direct impact of the crisis on the socioeconomic segments most sensitive to reductions in public spending.<sup>18</sup>

- 1.8 Monetary policy has played an important role in reducing the effects of the crisis. With a view to stimulating domestic demand, the Central Bank cut its benchmark interest rate from 8% to 3% in mid-2010. At the same time it has maintained a de facto fixed exchange rate against the dollar in order to support and control inflation.
- 1.9 The public debt profile has been improving over the last several years, assisted by the considerable amount of external debt cancelled in 2006 and 2007 by the country's main multilateral creditors, totaling US\$2.732 billion.<sup>19</sup> As a result, total public sector debt declined from 55.2% of GDP in 2006 to 37.4% in 2010.
- 1.10 With respect to external financing, multilateral loans represent 79.9% of the country's medium and long-term debt. The Andean Development Corporation (CAF) is the major source of multilateral lending. In December 2010, the balance of debt with the CAF amounted to US\$1.168 billion (40.8% of total external debt). In second place was the debt with the IDB, at US\$629 million (22% of the total). The balance with the World Bank was US\$355 million (12.4% of the total). Following the 2006 debt relief, Bolivia has no outstanding balance with the IMF.<sup>20</sup> On the bilateral cooperation front, the country's principal creditor is Venezuela, with a balance of US\$282 million in December 2010, followed by Brazil and the People's Republic of China with balances of US\$95 million and US\$82 million, respectively.<sup>21 22</sup>

## **2. The importance of oil and gas**

- 1.11 In addition to external resources, the significant expansion in government spending has been financed with internal resources from hydrocarbons. Following nationalization of the major gas producing companies operating in the country,<sup>23</sup> and the revision to the terms of their contracts with the State, there was a significant increase in the flow of annual revenues from this sector to the government: from 33% of total revenues of the combined public sector in 2006, hydrocarbons came to represent 40.6% in 2008 before declining to 30.9% (e) in 2009 (see Table 1.1).<sup>24</sup> However, if public revenues and expenditures related to hydrocarbons are excluded, the fiscal balance has been negative since 2005. This reveals the heavy dependence of the public finances on that sector.
- 1.12 Maintaining revenues from natural resource exploitation as one of the main sources of State financing will depend on the government's ability to achieve greater efficiency in the administration and operation of these large enterprises. The government also recognizes the urgent need to expand the sector's productive

capacity in order to meet growing demand from its main trading partners, as well as the imperative of finding and developing new gas reserves. In addition, it faces the significant challenge of starting up exploitation of the country's strategic lithium reserves, currently the largest known reserves in the world, for which it has programmed an ambitious investment plan for the next few years.

### **3. Institutional capacity of the State**

- 1.13 While the government has been able to raise the level of public spending at an almost constant rate since 2006, management problems pose a risk factor for implementing government policies. The State's growing role in the economy has placed a heavier management and administrative burden on the various government agencies. Consequently, the administrative inefficiencies and weaknesses in the management of public spending now constitute a challenge that the government must address.<sup>25</sup> According to the EIU,<sup>26</sup> as of June 2010 only around 30% of the annual budget had been executed. Moreover, a 2009 assessment under the World Bank's Public Finance Evaluation Program<sup>27</sup> called attention to discrepancies in executed versus programmed expenditure, and also noted certain weaknesses in the effectiveness of internal controls of nonwage expenditures.<sup>28</sup>
- 1.14 In terms of the six dimensions of good governance,<sup>29</sup> Bolivia ranked on average in the 25th percentile, revealing a poor perception on the part of civil society with respect to the institutional strength of the State (see Annex 1.3). It fared especially poorly on the indicators relating to the rule of law, quality of the regulatory framework, and political stability. Perceptions of government effectiveness and control of corruption also place Bolivia among the 30% of countries furthest behind. Thus, the recently approved anticorruption law could become an additional factor undermining government efficiency. The structure emerging from that law could provide a weak incentive for government officials to make prompt decisions regarding, for example, the execution of public expenditure.
- 1.15 Moreover, the uncertainty surrounding the fiscal authority of subnational governments in the course of the decentralization process still under way is an additional factor impeding the execution of public expenditure through budget allocations to local governments, as these are still undefined. Nevertheless, the State reform scenario has created an opportunity to develop a full program of reforms of the sector and public finances.<sup>30</sup>

### **4. The private sector's role in the economy**

- 1.16 The government faces challenges in achieving greater development of the private sector as a way of boosting investment in the country.<sup>31</sup> The authorities' intention is to allow private participation in the equity and management of public enterprises, or to negotiate production/service agreements with the private sector in order to strengthen capacity to adopt and use modern technology and management techniques. To encourage investment, the authorities are preparing

legal reforms to make public enterprises more efficient and provide tools for effective management, including compensation and contracting policies.<sup>32</sup>

**Box 1.1. “Doing Business 2011” Report for Bolivia (World Bank)**

Annex 1.4 shows the results from the World Bank’s report “Doing Business 2011”<sup>33</sup> for the Latin American countries classified by the Bank in socioeconomic category D2.<sup>34</sup> In the overall rankings, which include 183 countries with data to June 2010, Bolivia stands in 149th place for ease of doing business, a relative decline from its 2007 ranking (140 out of 178 countries).<sup>35</sup> It also lags under the headings of opening a business, protecting investors, paying taxes, and enforcing contracts. The previous report placed the country in the last position worldwide in terms of flexibility in employing workers.<sup>36</sup> Additionally, the country stands 108th in the ranking of 139 countries in the Global Competitiveness Report of the World Economic Forum, although in terms of the competitiveness index it has improved in recent years: in 2010 it scored 3.64 points compared to 3.55 in 2007.<sup>37</sup> The main reason for this is the stronger macroeconomic environment, which is one component of the index.<sup>38</sup>

## **5. Productive infrastructure**

1.17 Bolivia’s geography poses an additional challenge for developing the domestic market and making exports more competitive. Efficient linkages between producers and international markets are essential for maintaining competitiveness. Yet in 2010 only 7% of the 74,740 km of the national road system was paved. While the principal trucking routes to the Pacific ports of Peru and Chile are paved to varying degrees of quality, the connecting rail lines are either out of service or in poor condition. Although road transport costs seem competitive by international standards (US\$.05 to US\$.08 per kilometer), long distances to the major ports and seasonal interruptions from flooding and landslides present an additional barrier to export competitiveness.

## **6. Social sector and the government’s agenda**

1.18 Bolivia is a country characterized by a low level of development and marked inequalities among its inhabitants, particularly when measured across different ethnic groups and geographic locations.<sup>39</sup> According to the latest Human Development Report (2010), the country ranks 95th among 169 countries, with a human development index of 0.69,<sup>40</sup> a ranking that actually reflects some improvement, considering that in 2006 it stood 115th among 159 countries. Nevertheless, high levels of poverty and inequality and limited access to education, health, and basic services continue to hold back development.

Table 1.2: Bolivia: Social Indicators (2003-2008)

Variable	2003-2004					2007-2008(p)				
	National	Urban	Rural	Indigenous	Non-indigenous	National	Urban	Rural	Indigenous	Non-indigenous
<b>Demographic data</b>										
Population (millions)	8,4	5,2	3,2	.	.	10,4	6,9	3,5	.	.
Population (% of total)	100,0	61,8	38,2	.	.	100,0	66,4	33,6	.	.
Poverty	63,1	54,4	77,7	70,1	49,1	<b>59,3</b>	<b>51,2</b>	<b>74,3</b>	.	.
Extreme poverty	34,5	22,9	53,7	42,0	19,4	<b>32,7</b>	<b>22,0</b>	<b>53,3</b>	.	.
Gini coefficient <sup>1</sup>	0,6	0,54	0,66	.	.	<b>0,56</b>	<b>0,51</b>	<b>0,64</b>	.	.
Informal workers (% of total employed in the urban economy) <sup>2</sup>	.	63,2	.	68,0	57,0	.	57,4	.	53,0	47,0
<b>Education</b>										
Illiteracy rate (>15) <sup>3</sup>	20,0	8,9	36,5	.	.	<b>13,3</b>	<b>6,4</b>	<b>25,8</b>	.	.
Average years of study (> 15 years)	7,7	9,0	5,3	6,9	9,1	<b>8,7</b>	<b>10,2</b>	<b>5,6</b>	<b>7,2</b>	<b>10,5</b>
Dropout rate <sup>4</sup>	6,2	.	.	.	.	<b>5,3</b>	.	.	.	.
Net primary coverage rate (%)	92,7	.	.	.	.	90,0	.	.	.	.
Net secondary coverage rate (%)	58,1	.	.	.	.	54,7	.	.	.	.
<b>Health<sup>5</sup></b>										
Infant mortality (per 1000 births)	54	44	67	62	33	<b>50</b>	<b>36</b>	<b>67</b>	.	.
Chronic malnutrition < 3 years (%)	24,2	.	.	27,8	15,7	<b>23,7</b>	.	.	.	.
<b>Basic services and housing</b>										
Running water	65,6	86,3	33,6	.	.	<b>75,5</b>	<b>94,8</b>	<b>39,4</b>	.	.
Sanitary sewers	31,4	50,3	2,0	.	.	<b>37,7</b>	<b>55,8</b>	<b>4,1</b>	.	.
Homeownership	67,7	55,3	86,7	.	.	<b>61,8</b>	<b>51,9</b>	<b>80,2</b>	.	.
Dirt floor	36,6	12,6	73,7	.	.	<b>28,0</b>	<b>7,3</b>	<b>66,5</b>	.	.
Brick/cement walls	41,0	60,9	10,2	.	.	<b>49,9</b>	<b>67,4</b>	<b>17,1</b>	.	.

Source: MECOVI

(Figures in bold indicate improvements)

(1) Gini coefficient data are for 2005 and 2007.

(2) Informal worker data are for 1999 and 2007.

(3) Illiteracy data are from the 1992 and 2001 census.

(4) Dropout data are from the Education Information System (SIE), for 2003 and 2007.

(5) Health data are from the National Demographic and Health Survey (ENDESA), for 2003 and 2008.

1.19 According to the latest Household Survey and Measurement of Living Conditions, 59.3% of the population is poor and roughly 3 out of every 10 people are living in extreme poverty (indigence). The situation is even more critical for the indigenous and rural populations (see Table 1.2). Nevertheless, indicators of moderate and extreme poverty showed some improvement for 2008. In terms of income inequality, Bolivia was among the most inequitable countries of the region for the period 1995-2005.<sup>41</sup> The latest figure, however, shows a slight reduction in inequality, especially in urban areas.

1.20 In the education system, there have been important advances in recent years. The illiteracy rate dropped from 20% in 1992 to 13.3% in 2001, and UNESCO declared Bolivia illiteracy-free in 2008.<sup>42</sup> Yet access is very unequal, and the indigenous and rural population is in a much worse situation (see Table 1.2). Moreover, there has been little progress in making education universal. Net coverage rates at the primary and secondary levels in 2008 were 90% and 54.7% respectively, and the trend is stagnant.<sup>43 44</sup>

1.21 In the health sector, there has been success in lowering some indicators such as infant mortality and chronic malnutrition. Between 2003 and 2008, for example, infant mortality was reduced by four percentage points, and the incidence of

chronic malnutrition by half a point. Yet there are still wide gaps in health performance. Next to Haiti and Guyana, Bolivia has the highest infant and maternal mortality rates in the region.<sup>45</sup> The figures also show great discrepancies between urban and rural areas in access to basic health services.

- 1.22 Improvements in basic service delivery continue to lag, especially in rural areas, where only four households in 10 have a home water connection, and 4.1% of dwellings utilize a sanitary sewer system. This inadequate access to basic services can be correlated with the incidence of diarrheic illnesses and greater vulnerability to natural disasters (flooding, landslides), and other factors.<sup>46</sup>
- 1.23 Under the NDP's policy of Social Protection and Integral Community Development, the government has boosted fiscal expenditure targeting the most vulnerable population segments.<sup>47</sup> From the beginning of the administration of President Morales, fiscal policy has been geared to increasing social spending and investment. Public spending rose from 29.8% of GDP in 2006 to 34.7% (e) in 2010. According to the latest figures reported by the Economic and Social Policy Analysis Unit, social spending rose from 12.3% of GDP in 2005 to 13.6% in 2007, while remittances from abroad went from 4.9% of GDP in 2006 to 6.3% in 2009.<sup>48</sup> According to the report, *Los Cambios detrás del Cambio* [The Changes Behind the Change],<sup>49</sup> 18% of the funds received by households are spent for education, and 9% for health.

## II. THE BANK'S PROGRAM IN BOLIVIA

- 2.1 This chapter examines the extent to which the design and objectives of the Bank's country strategy with Bolivia 2008-2010 were consistent with the country's needs, the government's priorities, and the lessons learned from implementation of the previous strategy (2004-2007).
  - A. **Conclusions from the Country Program Evaluation: Bolivia 2004-2007 (document RE-340)**
- 2.2 The Country Program Evaluation (CPE) 2004-2007 stressed that the period of change and uncertainty in which the strategy was pursued had impeded the development and execution of the Bank's program. One of the main conclusions was that the Bank's country strategy "did not incorporate the new political environment or the new constituencies that emerged in this environment in its programming. The strategic response to these changes was to maintain the old strategy, only appending it with a short-run crisis scenario. Given that the scenario coalesced into a more permanent change, the strategy was of little use to the Bank in its negotiations with the new government."<sup>50</sup>
- 2.3 The previous CPE found that in executing the country program, "the Bank's engagement was not results focused, nor did it bring a substantial body of analytical or other inputs to address the new government's priorities."<sup>51</sup> Moreover, the report reaffirmed the importance of applying specialized, high

quality know-how in areas that represent development challenges in a rapidly changing country like Bolivia, and it highlighted the need for sustained and high quality dialogue on the country's sector policies. At the same time, it questioned the effectiveness of Bank procedures for promoting agreements on the country's development results. Implementation of recommendations from the CPE is discussed in Annex 2.1.<sup>52</sup>

## **B. The Bank's country strategy with Bolivia 2008-2010**

- 2.4 In 2008 the Bank approved a new country strategy with Bolivia (BCS-BO) for the period 2008-2010. The BCS-BO 2008-2010 document had a conceptual framework that retained "flexibility for adapting to the country's political and social dynamics."<sup>53</sup> Considering the medium-term uncertainty, the strategy covered a relatively short timeframe, corresponding to the remainder of the presidential term (2008-2010). An added consideration was the restricted availability of new concessional resources because of debt cancellation.<sup>54</sup>
- 2.5 The Bank defined a two-stage sequence for implementing its program. In the first, the Bank focused its attention on the performance of the active portfolio, and on a delimited field of projects in the areas of road infrastructure, social and productive development, and improving living conditions. In addition, it was mentioned that "once the concrete results of the Constituent Assembly are known, particularly as they affect decentralization and the State's role as economic agent, a second phase of implementing the strategy will be launched, setting out a menu of options in the strategic areas proposed."<sup>55</sup>

### **1. Relevance**

- 2.6 The Bank strategy took as its frame of reference the National Development Plan of Bolivia 2006-2010,<sup>56</sup> which lays out guidelines for constructing a new pattern of development (see Annex 2.2). The central objective of the NDP is to eliminate inequality and social exclusion. It has four strategic pillars under the goal of *Vivir Bien* ("Living Well").<sup>57</sup>

**Box 2.1. Strategic Pillars of Bolivia's National Development Plan 2006-2010**

*Bolivia Digna* [Dignified Bolivia]: a social and community-based strategy to eliminate poverty and all forms of exclusion, to generate the equitable distribution of income, wealth and opportunities, and to reduce the occurrence of situations of risk and their consequences.

*Bolivia Democrática* [Democratic Bolivia]: a social empowerment strategy seeking to establish a Plurinational and Communitarian State, where the people exercise political power “from the regions, with social actors, social and indigenous movements,”<sup>58</sup> and are jointly responsible for their own development.

*Bolivia Productiva* [Productive Bolivia]: an economic strategy to transform and establish the productive matrix through which the exclusive primary export pattern can be changed.

*Bolivia Soberana* [Sovereign Bolivia]: a strategy for international relations, intended to allow the country to make decisions independently, to maintain harmonious and balanced relations with other countries, and to consolidate its food and energy sovereignty.<sup>59</sup>

- 2.7 Consistent with the BCS-BO, the Bank “analyzed the NDP both from the viewpoint of overall macroeconomic sustainability and in terms of each of its pillars, identifying challenges and risks associated with the proposed policies.”<sup>60</sup> The analytical basis of the BCS-BO consisted of 15 studies and sector technical notes on the challenges facing the country.<sup>61</sup> That analysis, together with the Bank’s potential contributions to the country, were compiled into a “Proposal for Policy Dialogue: The IDB Contribution to Bolivia’s National Development Plan,”<sup>62</sup> which served as the basis for the sector policy dialogue with government authorities and civil society.
- 2.8 The main objective of the BCS-BO is “achieving a sustainable reduction in poverty... within the framework of the general objectives identified in the NDP,”<sup>63</sup> a challenge that also figured in the previous strategy (2004-2007) and has shown only limited success, despite “the ambitious economic and institutional reforms launched in Bolivia since the 1980s.”<sup>64</sup> While the BCS-BO makes mention of this, it did not offer any critical evaluation of the reasons underlying these results, nor the influence of the reforms on combating poverty.
- 2.9 Moreover, the strategy did not clearly establish how to determine the programs that would be given priority. Although it declared that “the Bank will adjust its activities to the guidelines that emerged from the process of dialogue and consultation with the national authorities,”<sup>65</sup> there was no detailed discussion of the meetings held or the agreements reached with the authorities, or of the possible intervention alternatives.<sup>66</sup> In addition, the BCS-BO lacked an adequate diagnosis for selecting areas in which it was planned to intervene. In fact, the document “Bolivia: Proposal for the Policy Dialogue,” made no mention of the strategic pillar for Opportunities for the Majority and Development with Identity, so it may be inferred that it was included after the dialogue with the authorities and civil society. It is important that all players involved in preparing the strategy to be involved, so that they will feel ownership over the strategy.

- 2.10 To achieve its objective, the BCS-BO identified four strategic areas for Bank support that were consistent with government goals and were included among the objectives of the NDP (see Annex 2.3).

## **2. Pillars of the Bank's strategy**

### **a. Pillar 1. Productivity, employment, and productive infrastructure**

- 2.11 The first strategic area revolves around the theme of productivity, competitiveness, and employment “as needed to promote balanced and sustained economic growth centered in areas with high economic potential and comparative advantages.”<sup>67</sup> Bank support focused on two broad lines of action: “(i) promoting regional integration and market access by financing upgrades to transportation infrastructure; and (ii) boosting economic growth and employment generation by improving the productive infrastructure and fostering productivity and competitiveness.”<sup>68</sup> Within the BCS-BO operating program,<sup>69</sup> this area accounted for the greatest number of operations and the greatest volume of programmed resources (see Annex 2.4).
- 2.12 With respect to transportation infrastructure, the proposal identifies areas of intervention without adequately addressing the challenges in the sector. Pillar 1 of the BCS-BO proposed “enhancing efficiency in the use of transport infrastructure, in particular the road network, by promoting modern and sustainable management in terms of upkeep and maintenance, and moving toward cross-country connectivity.”<sup>70</sup> To this end, it suggested that the Bank could focus its support on such areas as: rehabilitating and improving local roads and secondary networks; highway investments to improve geographic connectivity; institutional and financial arrangements for the upkeep of existing infrastructure; developing, rehabilitating and improving other modes of transport; and strengthening the institutions involved. While the Bank has a long track record in the roads sector, the BCS-BO offered no adequate analysis of the main challenges and lessons learned from that experience, as the basis for selecting activities from among those investments proposed in the NDP. Moreover, although the BCS-BO recognizes the importance of strengthening institutional capacities in the sector, it contained no analysis of the impact of budget policy on project sustainability.
- 2.13 It must be noted that the previous CPE had highlighted the importance of offering greater value-added in the Bank's work in the transport sector, and had cited several areas (including prioritization of works and sector studies, producing good diagnostics and vetting engineering work, and promoting environmental safeguards) in which the Bank could make a difference. However, although the Bank will support the identification and mitigation of possible environmental and social impacts, the programming does not show that the other recommendations have been considered. As far as programming, the rural electrification operation stands out in that, although possibly relevant to the theme of improving productive infrastructure, it was absent from the diagnosis and from the proposed pillar.

2.14 The BCS-BO recognizes the need to improve productive infrastructure and to promote competitiveness for job creation and economic growth, but lacks a solid empirical basis for this diagnosis. Thus, the BCS-BO proposed “to help consolidate territories with viable and sustainable economies, creating arrangements that will link small farms to dynamic business schemes and will expand non-farm employment opportunities in those territories.”<sup>71</sup> It also cited the need to determine intervention territories and to have operations that will provide “support for strengthening the institutions involved in agricultural development, in the areas of productivity and credit access.”<sup>72</sup> Yet the BCS-BO offered no adequate analytical work to justify these interventions in this area nor any clear prioritization for the proposed actions.

**b. Pillar 2. Social welfare and water and sanitation development**

2.15 The second strategic area sought to “support implementation of the social policy aspects of the PDN”<sup>73</sup> and focused Bank action on a new model of social welfare and comprehensive community-based development, and investments in water and sewer services. While these areas were in line with the NDP, the strategy skirted key social sectors that the Bank had actively supported in the past, such as education and health. Indeed, the previous CPE had discussed the Bank’s exit from education, and one of the recommendations was to seek ways to maintain a presence in that sector. Nevertheless, it appears that the Bank was not able to fully renew dialogue with the government, and, according to the BCS-BO, support for these sectors was to be channeled through nonfinancial products and nonreimbursable technical cooperation.

2.16 The Bank’s work in the area of social welfare was based on limited information. Although poverty reduction is the objective of the program, the BCS-BO had no analysis of the current situation or challenges in the social sector, for use in focusing its program. Nor did it set clear objectives among the strategic guidelines and proposed activities, or specify which actions would have the greatest impact in combating poverty. It merely mentioned that the Bank would continue supporting “implementation of a new intervention model that involves making conditional transfers to rural communities,”<sup>74</sup> along with “support for designing an intervention model for integral community development in urban areas.”<sup>75</sup> Yet the operations program contains none of these interventions, but includes one operation, Multiphase Program of Support to the Plan for Eradicating Extreme Poverty, which was notably absent from the proposal in the document.

2.17 In some cases, the Bank identified sector challenges with analytical evidence, but did not incorporate that evidence as a basis for programming in the country strategy. For example, preparation of the water and sewer intervention was based on a complete sector note. Yet this analytical work was not described clearly and specifically in the strategy. Certain shortcomings in the sector were identified, but not exactly what action the Bank should take in response to the problem. As a result, the proposal was ambiguous and included interventions that ranged from consolidating the sector’s institutional framework and preparing a strategic plan to

undertaking projects to expand water supply and sewer services in periurban, rural, and other areas.<sup>76</sup>

**c. Pillar 3. Opportunities for the majority and development with identity**

- 2.18 The purpose of this strategic area was “to lay the foundation for a more equitable society,”<sup>77</sup> by promoting and broadening opportunities for the majority. Although this objective is fundamental for a society with high levels of inequality and discrimination, the document offered no detailed analysis of its inherent structure, or of disadvantaged groups, or of the underlying causes: it merely indicated that “in Bolivia’s case [these groups] consist largely of people of indigenous origin.”<sup>78</sup>
- 2.19 Absent such an analysis, the BCS-BO failed to formulate a proposal around this problem. It proposed a set of activities where the Bank might assist the country: besides being too broad and diverse, the solutions presented were isolated<sup>79</sup> and not spelled out in its operational programming (see BCS-BO Annex VIII). As a result, there was a disconnect between the intent of the strategy and the thrust of the NDP to address the issues of inequity and social exclusion. While the Bank proposed a series of small-scale actions, the NDP called for a framework with a new pattern of development, a large-scale redefinition of policies for reducing inequality and social exclusion.

**d. Pillar 4. Institutional strengthening at the national and decentralized level**

- 2.20 The fourth area focused Bank support on institutional strengthening at the national and decentralized level. The BCS-BO mentioned implicitly that Bank intervention in this area would take shape “once the concrete results of the Constituent Assembly are known, particularly as they affect decentralization and the State’s role.”<sup>80</sup> Thus, the BCS-BO included a lengthy tentative list of areas where the Bank could provide support at the central, cross cutting, and decentralized levels.<sup>81</sup> Yet in its programming, the Bank focused solely on one operation, Fiscal Management Modernization.

**C. Evaluability**

- 2.21 For monitoring the Bank program, the BCS-BO established a Strategy Matrix covering the four main pillars of the NDP (see Annex 2.5). That matrix included eight objectives and nine indicators for the NDP, and identified 10 intermediate objectives to which the Bank strategy would contribute. Nevertheless, the BCS-BO was not evaluable in the sense that the objectives were not clearly defined and the NDP intermediate indicators to which the IDB strategy was to contribute lacked sufficient information for measuring results. Of the 10 indicators established by the Bank program, only two had a baseline, and none had interim milestone information.
- 2.22 Besides being unquantifiable, all the Bank indicators were output indicators, and in some cases bore no clear relationship to the Bank’s program objectives.<sup>82</sup> Three points need to be highlighted with respect to the indicators presented.

First, the lack of impact indicators for pillars 1, 3 and 4, relating to the strategy's purpose of reducing poverty. Second, the lack of indicators relating to ethnic minorities, especially indigenous peoples and the issue of inclusion and social welfare. Third, the lack of indicators for measuring outcomes under pillar 1 (productivity and employment), in terms of income distribution and the labor market. In this context, although the BCS-BO mentions that "the matrix will be monitored in conjunction with the annual performance review of the Bank's portfolio,"<sup>83</sup> the lack of precision in the construction of the matrix limited the possibilities of monitoring and measuring the Bank program's effectiveness.

## **D. The proposed operations program and actual program**

### **1. Programming intent**

- 2.23 The proposed operations program for 2008-2010 reflected the limited availability of fresh resources. With the debt cancellation of 2007, it was decided to establish an annual programming ceiling of US\$75 million. Nevertheless, in late 2008 that rule was relaxed in response to the international financial crisis, and the amount rose to US\$191 million in 2009 and US\$200.8 million in 2010. Under this scenario, the Bank programmed a total of six sovereign loans for 2008 and 2009, and a pipeline of potential actions (10 operations) to keep future dialogue open with the government (see Annex 2.6).
- 2.24 Although the Bank anticipated 16 loans, 88 new projects were approved. Although not anticipated in the operations program (Annex VIII), grants (including MIF, investment grants, and nonreimbursable technical cooperation) represented 80% (70) of the total number of operations, and 20.3% of the amounts originally approved. It bears mentioning that the resource allocation model for nonreimbursable technical cooperation and grant operations administered by the Bank creates uncertainty as to the amounts and availability of resources and hinders country program planning.
- 2.25 In terms of the Bank's institutional goals established in the Eighth Replenishment (IDB-8), the strategy was in line with enhancing social equity (SEQ) and poverty reduction (PTI).<sup>84</sup> Of the 16 operations programmed, nine were classified as projects contributing to social equity, and eight to poverty reduction.<sup>85</sup> The proportion of funds earmarked for these operations was consistent with the institutional mandate to concentrate 50% of the portfolio on those objectives.<sup>86</sup>

### **2. Instruments**

#### **a. Loan operations**

- 2.26 Between 2008 and 2010, the Bank approved 18 loans for US\$473.1 million. Annex 2.5 presents the intended program compared with the program actually approved. In total, 11 of the 16 programmed operations were approved, for a total of US\$289.3 million. In addition, seven operations not included in the BCS-BO program were approved for US\$183.8 million, representing 39% of the total approved during the period covered by the BCS-BO.

**Box 2.2. Distribution of Loans Approved by Program Pillars**

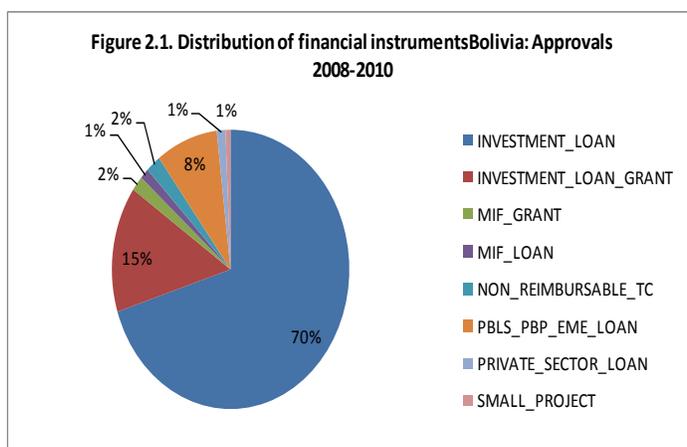
In terms of the strategic focus, the Bank favored operations relating to the productivity, employment and productive infrastructure pillar. The distribution of loans approved by pillar was consistent with the programmatic intent in terms of the volume of resources and the number of projects (see Annexes 2.7 and 2.8).

Roughly 69% of program resources were concentrated in loans supporting pillar 1, which to some extent would suggest that the Bank still regards economic growth as the most effective way to reduce poverty. The remainder was distributed among loans relating to pillar 2, “social welfare and water and sanitation development” (26%) and pillar 4, “institutional strengthening at the national and decentralized levels” (5%).

Noteworthy is the absence of operations programmed under pillar 3, “opportunities for the majority and development with identity.” This, despite the fact that, as the BCS-BO noted, “Bolivian society still has one of the widest gaps between rich and poor, leading to serious problems of exclusion and frustrating people’s efforts to escape poverty.”<sup>87</sup>

2.27 The BCS-BO maintains that “given the many and varied kinds of development support that the country needs to reduce the poverty gap, the new strategy calls for closer targeting of the Bank’s activities in Bolivia.”<sup>88</sup> Nevertheless, this intent was not backed by any diagnosis of the problem. The 18 loans approved between 2008 and 2010 were distributed across all the major areas of Bank activity: energy (2), infrastructure (2), water and sanitation (2), agriculture (3), reform and modernization of the State (3), social sectors (2), urban development (1), tourism (1), environment (1), and the private sector (1). Although the Bank sought to improve its targeting, this was not reflected in any significant reduction in the thematic dispersal of projects, because of the existing tension between the strategy’s conceptual approach and the demand for projects originating from the Bank’s operational departments or the country’s line ministries.

2.28 In order to achieve greater flexibility for adapting to the dynamics of change in the country, the BCS-BO foresaw greater use of programmatic approaches and flexible instruments such as sector-wide approach (SWAp) loans and conditional credit lines for investment projects (CCLIPs). In fact, the program gave priority to investment instruments in 16 of the 18 loans. The proceeds of two



policy-based loans (PBLs) were directed to the strategy area of institutional strengthening. For a detailed distribution by instrument, see Figure 2.1.

#### **b. Technical cooperation**

- 2.29 The technical support offered to Bolivia was substantial. The Bank approved 45 projects for a total of US\$12.0 million, and three investment grants were approved for a total of US\$86.7 million.<sup>89</sup> In financial terms, the TC program went mainly to support the strategy area of “social welfare and water and sanitation development” with US\$84.9 million (Spanish Fund). The “productivity and competitiveness” pillar accounted for 11% of the approved amount (US\$10.6 million), while “institutional strengthening at the national and decentralized levels” received 3% of the portfolio of grants approved (US\$2.7 million). The only operation approved in the “development with identity” strategy area was a TC for half a million dollars (see Annex 2.9).<sup>90</sup>
- 2.30 The BCS-BO mentioned that the Bank “would continue to provide technical support through non-financial products and nonreimbursable technical cooperation in those sectors that it has supported in the past, such as education and health.”<sup>91</sup> In practice, Bank support in education and health was channeled through three TCs, totaling US\$1.8 million. Health operations focused on strengthening the provision of health services and improving juvenile nutrition; and in education, on expanding opportunities for adolescents in Potosí. While the Bank attempted to maintain its presence in these sectors, its support was marginal in comparison with its previous efforts.

#### **c. Private sector**

- 2.31 In the characterization of the 2008-2010 portfolio, opportunities for the Bank to provide financing for the private sector practically disappeared. Nevertheless, the Bank kept up dialogue with the private sector, financing 24 operations of the MIF and the Social Entrepreneurship Program II, concentrated almost entirely in the area of micro and small enterprise development (see Annex 2.10). In fact, the MIF portfolio grew 22% with respect to the previous strategy period. Although none of these operations was programmed, the value of the portfolio for this window reached US\$21.9 million. In addition, the Bank facilitated a TFFP operation for US\$7.0 million.

**Box 2.3. Analysis of trends in the Bank program in Bolivia 2008-2010**

The consistency between the country strategy and the 2010 programming exercise was low. A comparison of the results matrix included in the 2010 country program document<sup>92</sup> with the one in the country strategy yields information on changes in the Bank’s development objectives over the period evaluated and their alignment with the approved strategy. Of the eight objectives in the National Development Plan established by the Bank in its strategy, three were withdrawn in the country program document. The objective most closely aligned with the purpose of the strategy, “eradicating poverty and exclusion and expanding access to basic services,” was one of the objectives eliminated. A fifth pillar was added in 2010: “Country Fiduciary Systems for Procurement and Financial Management.” In contrast to the foregoing, the strategy foresaw that support for the reform initiative of the new Bolivian government would be defined “once the concrete results of the Constituent Assembly are known.”<sup>93</sup> In this respect, its inclusion is in line with the Bank’s strategic intent.

According to the Development Effectiveness Matrix, only “39% [of the interventions planned for the 2010 program] are aligned with the objectives set out in the results matrix of the IDB strategy with Bolivia; ... the link between the [...] targets and indicators of the IDB results matrix in Bolivia can only be identified in 4% of the interventions that comprise the 2010 Country Program Document.”<sup>94</sup>

**III. EXECUTION OF THE IDB PROGRAM IN BOLIVIA**

3.1 Chapter III evaluates the preparation and delivery of the Bank program, using standard metrics of operating efficiency calculated by OVE, and supplemented by information gathered during missions and interviews.

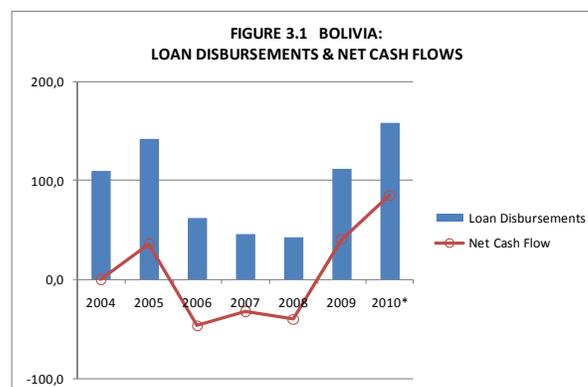
**A. Loan portfolio**

3.2 The loan portfolio for evaluation consists of: (i) 28 loans for US\$796.7 million, which were at various stages of execution at the end of 2007; and (ii) 18 loans approved between 2008 and 2010 for US\$473.1 million (see Annex 3.1). As of December 2010, 24 of the 46 operations were in execution, 15 had been completed, one was canceled, and six were pending ratification. Of the 15 loans completed, 11 required extensions (from 6 to 105 months), with an average of 48 months. This figure represents a delay of 18 months (66%) beyond the Bank average (30 months for investment loans). Seven of the 24 operations still in execution have been extended for between 12 and 47 months.

**B. Net flows**

3.3 *IDB net flows to Bolivia totaled US\$85.9 million between 2008 and 2010.* Disbursements increased 260% in 2009, reversing the downtrend of the prior period (see Figure 3.1 and Annex 3.2).

3.4 Approvals during 2008-2010<sup>95</sup> rose in comparison to the amount approved during the 2004-2007 strategy (US\$404.7 million). The average annual amount approved doubled (1.96 times), reaching US\$197.9 million a year, compared to US\$101.2 million during the



previous period. In programming terms, the total approved for sovereign loans was US\$466 million,<sup>96</sup> representing 1.5 times the amount projected in the country strategy. While approvals were greater than projections, disbursements also rose 1.6 times more than projected, on an annual average.<sup>97</sup>

- 3.5 Disbursements from the Fund for Special Operations (FSO) were roughly equivalent to 140% of repayment of principal from the Ordinary Capital (OC). FSO disbursements represented 75% (US\$234 million) of total disbursements during the strategy period, while 93% of principal payments went to retire US\$166.8 million of OC debt.

### **C. Efficiency**

- 3.6 The standard metrics of preparation times for operations show mixed results. The investment project preparation cycle in Bolivia was shorter than the Bank average. For the three-year period 2008-2010, the average project preparation time was seven months less than for the rest of the Bank. Nevertheless, it improved significantly during the strategy period: in 2004-2007 it was 19.1 months, declining by 33% to 12.9 months (see Annexes 3.3 and 3.4).
- 3.7 The average time between approval and first disbursement (9.5 months) continued to be longer than the Bank average (8.6 months) during the period evaluated. However, this indicator has improved substantially, dropping by 7.4 months compared with the previous strategy period. A portion of these delays is due to holdups in ratifying the loans. For example, in 2008 nine months elapsed between approval of the investment projects and their ratification (including six months between signature and ratification); in 2009, the time to ratification was shortened slightly (six months on average between approval and ratification).
- 3.8 Project preparation costs exceeded the Bank average. For loans approved, the average preparation cost increased between 2008 and 2009 by 77%, rising from US\$7,263 per million approved to US\$12,992. This was due primarily to two atypical programs, Transparency and Anticorruption Program (BO-L1047) and Periurban Water and Sewer Program (BO-L1034), where costs per million approved were US\$30,467 and US\$23,205, respectively. Thus, as a country, Bolivia has the fifth highest preparation costs, 60% above the Bank average (US\$8,065 in 2009). In 2010, this metric reached US\$8,834 per million approved, roughly 10% above the Bank average.
- 3.9 Execution costs of operations are nearly double the Bank average. For operations in execution that made disbursements during 2008, the average of execution costs per million disbursed was 14% (US\$137,064). While this situation was normalized in 2009, when it declined to 3%, it worsened again in 2010, when the cost per million executed rose to 14% because of execution delays. On average, the execution cost of loan operations in Bolivia during 2008-2010 was double the Bank average.

- 3.10 In the context of realignment, the Bank's Country Office in Bolivia (CBO) undertook a major effort with the action plan and the modernization process. It introduced a balanced scorecard with the objective of reducing execution times and streamlining disbursements. As this section demonstrates, the metrics for Bolivia show some improvements. For example, one activity of the action plan was to streamline the portfolio. A disbursement forecast was defined as an indicator for this goal. That goal was met and exceeded: disbursements rose from US\$43 million to US\$158.6 million in 2010. The plan also included implementation of a results-based management office model. To this end, the CBO successfully implemented portfolio and economic outlook reports as of March 2009. This modernization made it possible to work more closely with fiduciaries, to improve relations with the authorities, to enhance the capacity to anticipate problems, and to encourage the Country Office team to be more proactive. A number of teams have been created with local counterpart participation, and they have met regularly (on average every two weeks) to discuss the progress of operations and seek solutions to problems as they arise.
- 3.11 The CBO lacks sector specialists in critical areas for the country. There is increasing demand for IDB support to the country. The growth in approved operations, in the active portfolio, and in undisbursed balances was not accompanied by any increase in the Country Office's professional staff. Indeed, the number of professionals declined during the period of the strategy. For example, the office had 19 professionals at the beginning of the previous strategy (2004-2007), but only 13 at the outset of the strategy under evaluation (2008-2010).<sup>98</sup> This has meant an extra workload for the specialists, made even heavier by the absence of specialists in indigenous issues, water, oil and gas, and energy. The average project workload per technical specialist<sup>99</sup> rose from 4.9 in 2008 to 8 in 2010, at a time when the portfolio was growing. In a country like Bolivia, these shortages create obstacles for portfolio execution.
- 3.12 To maintain its relevance and improve performance, the CBO made a real effort to "prune" the old portfolio and to adapt its projects to government priorities. The results-based management process translated into approval of operations within the framework of the new development pattern, the completion of various previous loans, and the cancellation of components no longer relevant for the country. Most of the cancellations occurred in 2009 (US\$19.7 million); this was also reflected in a reduction in the age of the portfolio from 4.5 years in 2007 to 3.17 years in 2010.

#### **D. Donor coordination**

- 3.13 With regard to the Paris Declaration on Aid Effectiveness, the period 2008-2010 represented both progress and limitations. The Bank, through the Country Office, is a founding member of the Bolivia Development Partners Group (GruS).<sup>100</sup> The GruS comprises all traditional international cooperation players, and the IDB participates actively in coordination and cooperation efforts. In terms of harmonization, the earlier CPE indicated that the Bank helped by establishing

semi-regular meetings with international cooperation agencies, but that the absence of the government in that forum limited its effectiveness. This was confirmed by criticism from representatives of international corporation agencies about a lack of consultation and unilateral decision-making by the IDB on changes in the program.<sup>101</sup> Since then, progress has included monthly meetings and the government is invited to participate regularly.<sup>102</sup> Moreover, there are plans for the Bank to be part of the group's coordination "Troika" and to serve as chair in 2012.<sup>103</sup>

## IV. OUTCOMES

4.1 This chapter describes the main outcomes of the Bank's program in Bolivia. The analysis is structured around (i) the four strategic areas defined by the BCS-BO, and (ii) the set of loans that were more than 50% disbursed, even if approved before 2008. In documenting outcomes, OVE considers the entire history of the selected operations.

### A. Pillar 1: Productivity, employment and productive infrastructure

#### 1. Transportation

4.2 In 2007-2008, the road system carried approximately 93% of passengers, and 26% of exports and 93% of imports (by value).<sup>104</sup> Given its importance for the country's development, the sector has attracted great attention from international cooperation. According to an OVE evaluation of the road sector (2010), international agencies accounted for more than 70% of total expenditure on preinvestment studies and on investments in new road construction and in rehabilitation and maintenance of existing routes.<sup>105</sup> The Bolivian Highways Administration (ABC) reports that in July 2010 the most active international partners were: (i) CAF: US\$1.207 billion; (ii) IDB: US\$299 million; (iii) Government of Venezuela: US\$272 million; (iv) PROEX: US\$120 million; (v) World Bank: US\$97 million.<sup>106</sup> The execution of public investment in transportation rose from 30% in 2000 to 44.7% in 2007 (3.5% of GDP<sup>107</sup>).<sup>108</sup>

4.3 The Bank's loan portfolio contained seven operations for a value of US\$350 million, including: (i) financing for the expansion, rehabilitation and maintenance of the main corridors of the Trunk Roads Network (Red Vial Fundamental, RVF), designed to promote regional integration; (ii) support for establishing sustainable models for RVF maintenance, with the potential for private sector involvement as well as actions to strengthen management and administration, and in particular environmental management; and (iii) support for road safety improvement.<sup>109</sup>

4.4 Of the projects in the portfolio, only two meet the criteria for evaluation: BO-0098, Ventilla-Tarapaya Highway (1999, US\$52 million), completed in 2010; and BO-0036, Santa Cruz-Puerto Suárez Integration Corridor (2002, US\$75 million), expected to complete execution in 2011.<sup>110</sup> Both operations showed

significant delays in execution, according to the PPMRs, because of excessive conditions precedent and cross-conditionalities with other projects, and too many subcomponents that complicated execution, as well as procurement delays.<sup>111</sup> Execution of BO-0098 took more than twice as long as anticipated (129 months versus 48). Yet in terms of implementation progress, the project was consistently rated “satisfactory” by the Bank. Project BO-0036 has been extended by 47 months.

- 4.5 In terms of effectiveness, the Bank’s management and monitoring reports (PPMRs and PMRs) show that BO-0098 achieved its objective of reducing average travel time from 5 hours to 3.5 hours through the paving and upgrading of 249 km of the North-South corridor between Oruro and Potosí. Although the PPMR (2008) reports that the level of service on the North-South corridor improved, contributing to integration of the four departments along the corridor and the flow of trade with Argentina, this statement is not backed by any data. The impact evaluation is scheduled for 2011. As to BO-0036, by late 2010 approximately 104 km (83%) of the 125 km stretch between El Tinto and San José had been constructed and paved, and another 139 km between Robore and El Carmen had been rehabilitated.<sup>112</sup> Once the program is completed, the impact results will be presented.
- 4.6 The previous CPE (2008) concluded that “the Bank’s value-added has fallen short in addressing some of the fundamental priorities of the current ABC administration. It has had a limited role in addressing cost overruns and engineering issues, in dealing with associated risks in the sector, in assessing development results in the sector, and in promoting environmental safeguards and mitigation.”<sup>113</sup>

## **2. Electricity**<sup>114</sup>

- 4.7 Electricity coverage is highly uneven in Bolivia. In 2010, 11% of urban households and 56% of rural households had no access to electricity, and the growth in power consumption was around 2.7%.<sup>115</sup> According to the project supervision report (2010), BO-L1002, Bolivia Electric Transmission Lines (2004, A-1, US\$31.0 million; 2008, A-2 US\$3.8 million) met its original objective of improving the availability and reliability of the power system,<sup>116</sup> providing an increase of 40% in the nationwide electricity supply in 2006.<sup>117</sup> Loan A-2 had the objective of expanding the rural electric system northwest from the city of Santa Cruz and making it more reliable. The utilization capacity of the Carrasco-Arboleda line increased from 52.9% in 2008 to 99.8% in 2009. Moreover, the capacity of the Arboleda-Urubo line, which also supplies an urban area of Santa Cruz, rose from 20.8% in 2008 to 93.9% in 2009.

## **3. Productivity and employment**<sup>118</sup>

- 4.8 Execution of operation BO-0176, Agricultural Services Program (2000, US\$34 million), was completed in 2009, after an extension of 48 months and cancellation of US\$3.8 million. The program’s objective was “to raise the income

of Bolivian farmers through investments which, by strengthening technical services to generate and transfer technology and improving agricultural health practices, will boost the productive efficiency and the quality of the country's agrifood products." The expected outcomes were: (i) an increase in the income of beneficiary producers of 20% to 40% over the levels in 1997-1999; and (ii) by 2007, Bolivian farm products would meet quality and health standards for national and international markets.

- 4.9 In terms of outcomes, 83,518 direct beneficiaries were registered in 277 Applied Technology Innovation Projects (PITAs), in 30 prioritized chains.<sup>119</sup> These beneficiaries have seen their family incomes rise by an average of around 84%, with best results for producers of onions, garlic, and, especially, tomatoes. Yet there are serious doubts about the validity of these results, because they were calculated by different entities using different methodologies.<sup>120</sup> Moreover, in 2009 the government abandoned the institutional model then in use for transferring agricultural technology, in favor of an alternative model rooted in the public sector. As to the second objective, that Bolivian farm products would meet quality and health standards for national and international markets, the project presented no data on the results.<sup>121</sup>
- 4.10 BO0179, Program of Support for Rural Productive Development (2003, US\$13.5 million) was intended to help make a sustainable reduction in rural poverty levels.<sup>122</sup> However, only US\$1.2 million was disbursed. The government asked that the undisbursed resources be canceled, under the Multilateral Debt Relief Initiative and the IDB concessional finance reform.<sup>123</sup> Consequently, only one of the three components was executed (promotion and training of beneficiaries to prepare and manage rural productive projects), achieving the goal of training 3,300 beneficiaries. While the loan achieved its physical target, the beneficiaries were not able to put what they had learned into practice because the components that were to provide technical assistance and financing were canceled. The direct costs of the only component executed were US\$200,000, yet US\$722,000 was disbursed in administration and supervision costs, and US\$253,000 in concurrent and financing costs.
- 4.11 The main objective of BO-0174, Program to Support Sustainable Tourism Development (US\$10 million), approved in 2002, was to help establish an image of Bolivia as an international tourism destination.<sup>124</sup> Execution took more than seven years, and was extended by 36 months. As a result of institutional changes during execution, project administration was divided between the Office of the Deputy Minister for Tourism (VMT) and the Ministry of Planning.<sup>125</sup> For Subprogram I, the main execution problems had to do with contracting external services, while Subprogram II suffered from constant changes of coordinator.<sup>126</sup>
- 4.12 The project ended in 2010. Some of the program's outputs form part of the promotion strategy under subprogram I, including Bolivia's participation in 20 international fairs, three workshops with tourism operators highlighting projects supported by the Bank, and creation of an Internet portal maintained by

the VMT.<sup>127</sup> As a result of this operation and the interest that the authorities continue to show in the sector, a new project was approved in 2010: National Community Tourism Program, BO-L1039 (US\$20 million).

- 4.13 BO-L1016, Support for the National Development Finance System (2007) consisted of a multisector credit operation of US\$12.3 million to finance second-tier lines for the Banco de Desarrollo Productivo (BDP) for onlending through financial intermediaries to small and medium-sized enterprises (SMEs). The program was completed in 2010, well before the end of the original period (2012). The results were to be measured in terms of the quality of the subloans in comparison to those offered by the financial system. The last PMR reported that the amount stipulated had been disbursed. However, only 649 of the planned 820 loans were made because, according to the BDP, the 2008 financial crisis imposed market conditions that translated into fewer placements. Moreover, the loan quality indicator<sup>128</sup> was revised downward. In this way, according to the last PMR, the redefined target was met.

## **B. Social welfare and water and sanitation development<sup>129</sup>**

### **1. Water and sanitation**

- 4.14 Operation BO-0125, Basic Urban Sanitation Program (1996, US\$70 million) unfolded in the midst of various events in the last years of the 1990s that had an impact on its execution.<sup>130</sup> The loan was placed on “alert status” for several years, was extended for 105 months, and was finally canceled in late 2009, leaving 18% of the allocated resources unexecuted. As to the general objective to “improve the hygiene and health status of the Bolivian urban population, through the expansion and improvement of water supply and sanitary sewer services in cities with over 5000 inhabitants,” the program made significant progress. In total, it provided water and sewer service to some 689,000 urban residents, double the target number. Consumption of potable water rose from 20 to 113 liters per capita per day, coverage of water service in the participating cities increased 17%, and sanitary sewer coverage increased 33%. Yet there is no information for estimating the impact on the hygiene and health status of the population.
- 4.15 According to the PCR, the program did not achieve its institutional objective of instituting a regulatory framework for the sector and strengthening the regulatory agency. It reports that “having invested in the Superintendency of Basic Sanitation to strengthen it and have it function effectively, in early 2009 the government decided to eliminate it and create another agency called the ‘Authority for Supervision and Societal Oversight of Water and Sanitation.’”
- 4.16 The loan BO-0175, Basic Sanitation Program for Small Municipalities (1999, US\$40 million) was extended by 51 months. Execution ended in 2010, leaving 4% of its resources unexecuted. Its objectives were: (i) to increase the coverage and quality of basic sanitation services in communities of up to 10,000 inhabitants;<sup>131</sup> (ii) to strengthen the operational capacity of the municipalities and

the Ministry of Housing and Basic Services; and (iii) to make these services self-sustaining.

- 4.17 According to the PCR, achievement of the proposed objectives was classified as “low possibility.” It noted that “while water and sewer systems were built, and there is evidence that they were delivered to the corresponding municipios, there is no evidence that the projects were delivered to the municipal operators or that they are functioning. Therefore, we cannot state that there was any increase in the coverage of satisfactory and sustainable services.” The report also notes that, although the community development component was implemented, “we find no evidence of positive outcomes, nor any explicit indication of community engagement,” which could have implications for the program’s sustainability.
- 4.18 While there is no information for determining the contribution of operations to the sector, it may be inferred as limited in light of the trend in the coverage of water and sewer service in the country. According to Bolivia’s Social and Economic Policy Analysis Unit (UDAPE), the percentage of urban households with no connection to the public water system declined from 7.7% in 1996 to 5.2% in 2007,<sup>132</sup> and, in rural areas, from 77% in 1999 to 60.6% in 2007. The proportion of households without sewer service in the cities declined from 57.7% in 1996 to 44.2% in 2007, and in the countryside from 99.2% in 2006 to 95.9% in 2007. It should be noted that access to these services was highly unequal between urban and rural areas, and one might have expected greater Bank involvement in the latter. It is important to note, however, that two loans targeting rural and periurban areas were approved between 2007 and 2009, which sought to narrow the gap between urban and rural areas.<sup>133</sup>

## **2. Housing**

- 4.19 Operation BO-0008, Housing Policy Support Program, was approved in 1998 for US\$45.8 million. Its general objective was “to support implementation of the Bolivian government’s national housing policy, which is intended to improve the housing of Bolivian families, particularly low-income families.”<sup>134</sup> In its original design, the program contained three subprograms: A: implementation of legal and institutional reform in the sector; B: development of the secondary credit market; and C: barrio improvement. Subsequently, in response to the 1998 earthquake in Aiquile, Mizque and Totora, a further component was added: D: support for reconstruction of dwellings damaged by the earthquake. The program required support from a strengthened Ministry of Housing and Basic Services, but policy changes with each new incoming government affected continuity in the implementation of the various components, as well as their respective outcomes.

**Box 4.1. Execution problems and outcomes: Housing Policy Support Program (BO-0008)**

In the case of *Subprogram A*, achievements were partial. On one hand, there was progress with reform of the sector, with approval of the law regularizing urban property rights; on the other hand, the housing ministry was not strengthened as planned.

*Subprogram B* was canceled, and, as the PCR notes, “with that, one of the fundamental aspects... not achieved was to bring the private banking system into the provision of credit for low-cost housing; nor was it possible to create a second-tier financial institution for the sector.”

*Subprogram C* achieved its goals of providing water and sewer services, roads, storm drainage, public lighting, community centers, and sporting facilities. Initially the program had planned to resolve the housing problem for 23,000 families, and in the end it benefited 25,088. In addition, the La Paz municipal team was strengthened with a special unit for implementing the program. Yet there is no information as to whether the program succeeded in improving the quality of life of the population.

Similarly, *Subprogram D* delivered the target number of dwellings, but failed to involve local residents in housing reconstruction as planned. The program was changed three times, was placed on alert status, and was completed six years later than planned.

While the program benefited a great many households, much remains to be done in the sector. According to UDAPE, the percentage of families without their own dwelling nationwide rose from 34.5% in 1999 to 38.2% in 2007. The situation is even more serious in urban areas, where, in 2007, 48.1% of families had no access to housing.

4.20 Operation BO-0216, Program for the Revitalization and Urban Development of La Paz (PRU), was designed to “promote the urban, social and economic development of La Paz by reversing the process of physical and social deterioration” that the city center has experienced in the last decade.<sup>135</sup> To date, 97% of the US\$28.5 million loan has been disbursed, and the operation is expected to be completed in 2011. According to the midterm evaluation,<sup>136</sup> there has been progress with the outputs and interventions under the component for rehabilitation of the urban environment. There has been little movement with the component for the promotion of social and economic development, “because the problems addressed go beyond the physical bounds of the city center and require resolution of structural and underlying problems beyond the scope of component II, or even the PRU.”<sup>137</sup> The planned objective for institutional strengthening is expected to be partially achieved.<sup>138</sup>

4.21 The objective of loan BO-0223, La Paz Storm Drainage Program (2007, US\$20 million) is “to help improve the quality of life of the inhabitants of the city of La Paz”. Its purpose is “to reduce the incidence of human loss and property damage caused by extreme hydrometeorological events.”<sup>139</sup> The last PMR<sup>140</sup> indicates that the project is achieving the planned outputs and outcomes. To date, 59% of the total amount has been disbursed, and the operation is scheduled for completion in 2012.<sup>141</sup>

**3. Social and environmental development**

4.22 Operation BO-0033, Environmental and Social Protection in the Santa Cruz-Puerto Suárez Corridor (2002, US\$21 million) originated in response to

environmental and social concerns evoked by the roads project BO-0036.<sup>142</sup> According to interviews conducted at the County Office, the project design was too ambitious and complex. Coordination among the various players turned out to be complicated, and there were a series of misunderstandings with the executing unit.<sup>143</sup> In general, the programs were delayed and in some cases were never executed.<sup>144</sup> The last PMR<sup>145</sup> placed the operation on alert status, meaning that special action would be needed to keep it on schedule. This raises concerns, considering that almost 60% of resources have been disbursed, and the operation is supposed to be completed in 2012. The previous CPE had warned of some serious problems in the initial stage of execution, and the evidence suggests that there has been little progress in resolving those problems.

### **C. Opportunities for the majority and development with identity**

- 4.23 Although the Bank did not program any loan in its plan of operations under this strategy pillar, the objective of BO-0221, Land Regularization and Legal Cadastre Program (2004, US\$28.5 million), was aligned with this pillar. Specifically, the program sought to “raise productive investment levels in the countryside and enhance municipal income-earning capacity, by regularizing, perfecting, and improving the legal security of ownership rights on the country’s real property in rural areas.”<sup>146</sup> The program is crucial to the success of the government’s community-led agrarian reform program. According to the progress report presented by the government,<sup>147</sup> the project has produced results that have enhanced the efficiency of land administration and property rights.

#### **Box 4.2. Outcomes of the Land Regularization and Legal Cadastre Program (BO-0221)**

By the close of fiscal year 2010, cadastral files and plans digitized and incorporated into the system went from 0 to 87,100 (99% completed); seven of the nine departments of the National Institute of Agrarian Reform were interconnected to the system; regularization decisions were finalized for 11.8 million hectares; and 10.6 million hectares were audited (target compliance of 125%). While the operation expected that greater certainty as to the law for land ownership would generate positive impacts such as “(i) higher levels of investment, both productive and related to soil conservation; and (ii) greater access for many producers and low-income groups to the economic benefits arising from clear property rights, such as access to credit and the land market,” no indicators were included to measure its impact on productivity, poverty, employment, or access to credit. In addition, the socioeconomic and taxation baseline for ex post evaluations was surveyed only recently, six years into execution.

### **D. Institutional strengthening at the national and decentralized level<sup>148</sup>**

- 4.24 The performance of projects in this sector (approved under previous strategies) improved considerably during the programmed period, in comparison to previous cycles. In part, this was due to better communication and promotion of these projects by the Country Office, in addition to the government’s political commitment to the sector objectives.
- 4.25 Program BO-0196, Municipal Financial Administration Modernization Program (2001, US\$20 million), was designed to extend the Integrated Administrative

- Modernization and Management System (SIGMA) to local governments,<sup>149</sup> with the overall objective “to help enhance the efficiency, transparency, and control of public financial management.”<sup>150</sup> The program took nearly twice as long as planned. The principal execution problems revolved around the lack of a realistic design consistent with the amount approved, the programmed time, and the institutional capacity of the executing agency. The target for the main objective indicator was to introduce SIGMA in 91 municipios, but no metric was identified for measuring the expected outcomes. Nor was there sufficient consideration of the high costs involved in implementing the system in the smaller municipios, and consequently the indicators of objectives were changed to output indicators, measuring the level of execution of the national budget administered by SIGMA. Under this new metric, in November 2008 the first component, including the overall objective of the program, surpassed the respective targets for the end of the period.<sup>151</sup>
- 4.26 Moreover, the insufficient technical and institutional capacity of the executing agency<sup>152</sup> served to delay execution. From 2005 onward, the pace of disbursements slowed considerably, and the government stopped participating actively in execution, cutting back in particular on the component for the institutionalization of SIGMA.<sup>153</sup> Only in late 2009 were activities fully restored. While the last PMR from 2010 reports that the objectives were met, it is difficult to assess whether the objective of greater efficiency, transparency, and control of public financial management has been achieved, given the change in the principal metric.
- 4.27 In 2003, the reimbursable TC operation BO-0225, Sector Program to Support Fiscal Sustainability, was approved for US\$2 million. Its objective was to improve the revenue collection capacity of the tax administration and strengthen the management entity of the public pension system (SENASIR).<sup>154</sup> The taxation subprogram was satisfactorily completed in 2007, exceeding its objective of increasing tax revenue collection to the equivalent of 3% of GDP. However, the pension system subprogram failed to produce the expected results, because of significant restructuring and subsequent cancellation of outputs.<sup>155</sup> The program concluded in early 2010, but it is difficult to speak of favorable outcomes, because of the significant reduction in outputs and 51-month extension. Looking solely at the taxation subprogram, a previous OVE report<sup>156</sup> found the loan’s performance satisfactory, highlighting the Bank’s flexibility for satisfying key outputs within the component.
- 4.28 Operation BO-L1007, Program to Consolidate Reforms in the Government Revenues Area (2006), sought to consolidate the outcomes to be achieved under loans BO-0196, BO-0213, and BO-0225. The general objective was “to sustainably improve the efficiency of the government revenues area as a whole through strengthening, coordination and consolidation of the institutional reform processes in the institutions in charge of the formulation and implementation of tax and customs policies.”<sup>157</sup> The program has presented a series of execution

problems, due primarily to difficulties on the part of the executing agencies in committing themselves to execution. One cause was the turnover at the staff and executive levels of those entities<sup>158</sup> during the initial stage. Moreover, the program design created a disconnect between the executing agency and the entity receiving the disbursement, where qualification for disbursement depended not only on the objectives achieved by one agency, but on the performance of others. According to the PPMRs/PMRs,<sup>159</sup> the situation improved considerably after the Bank's efforts to explain the program's merits to the Minister of Economy and Public Finances. As a result, the program coordination unit was assigned the task of designing a system of incentives for the executing agencies to participate: 66% of the amount approved had been disbursed by 2009-2010.

- 4.29 To date, the final outcome indicators show satisfactory results. The efficiency of the tax system, defined as the percentage annual increase in tax receipts, adjusted for inflation and GDP growth, stands at 6.13%, two percentage points above the final target. In addition, the customs efficiency indicator (annual percentage increase in ordinary receipts) is 5.4%, three percentage points above the final target; and the indicator of policy oversight and formulation capacity<sup>160</sup> is at the level specified for the present stage.

#### **E. Final remarks**

- 4.30 The evaluation confirmed one of the conclusions from the previous CPE: that the Bank's success depends mainly on its level of engagement and the value-added it contributes. The 2008-2010 strategy kept the focus on those areas where the Bank had comparative advantages, and took few steps toward resuming dialogue in other sectors. The Bank concentrated on sectors where it had broad experience, such as infrastructure and basic services, but did not become a more prominent player in areas crucial for Bolivia's social development, such as education and health.
- 4.31 In the transportation sector, for example, the Bank has contributed value-added in terms of financing, and it has been and remains one of the most important sources of financing in this sector. The Bank will continue to find scope for work in this area, although it will face increasing competition from other multilateral and bilateral financing sources, as well as from the government's own revenues. This competition highlights the need for the Bank to generate new forms of value-added.
- 4.32 The evaluation found that, generally speaking, during the review period many of the project output objectives were met, but there is scant evidence of any significant end-impact of these accomplishments. The Bank performed well on tangible services like roads, water and sanitation, and housing, but its impact on development objectives such as poverty reduction, quality of life improvements, or health improvements could not be discerned. This left a gap when it came to gauging the Bank's effectiveness in addressing the country's major development challenges.

- 4.33 The evaluation revealed that projects exposed to changes in the political environment had serious repercussions on their performance. The numerous cases of project implementation slippages and cancelled components may have been related mainly to restructurings of government departments or units, reorganizations of executing agencies, and the emergence of new government priorities. Likewise, projects and programs that pursued solutions based exclusively on market mechanisms did not perform well, such as operations in the agriculture, water supply, and housing sectors. For example, under operation BO-0008 the component for involving private banks in the provision of low-cost housing was canceled. Operation BO-0179 to reduce rural poverty by increasing farmers' productivity through training and project support succeeded in executing only one of its components.
- 4.34 The evaluation underscored that a continuing proactive approach in pursuing dialogue with the government makes for better project performance. In the case of fiscal reform operations, enhanced Bank promotion and communication helped develop project ownership on the part of executing agencies, which in turn improved implementation performance.
- 4.35 Lastly, the evaluation found serious issues in the documentation of program and project outcomes. The previous CPE had brought out this same problem, and apparently little progress has been made. Generally, administrative and survey data and impact evaluations were missing for the projects reviewed. The results presented are drawn mostly from Bank-generated reports that lack detailed or disaggregated project data. Moreover, the transition from one Bank monitoring system (project performance monitoring report, PPMR) to another (project monitoring report, PMR) left a gap in the institutional memory. Because of this lack of information, a thorough analysis of the effectiveness of the operations delivered could not be done.

## ENDNOTES

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<sup>1</sup> Inter-American Development Bank (2008), Protocol for Country Program Evaluation. Revised version (document RE-348-3).

<sup>2</sup> IDB: Country strategy with Bolivia (2008-2010). New revised version (document GN-2485-2), approved on 28 October 2008, spans the period 2008-2010.

<sup>3</sup> The Bank used 19 instruments from its supervision toolkit in Bolivia, including: Project Alert Identification System (PAIS), project performance monitoring reports (PPMRs), project monitoring reports (PMRs), technical inspection visits (TIV), inspection and supervision commissions (FIV), audited financial statements (AFS), project completion reports (PCRs), project supervision reports (PSR), administrative missions, annual portfolio review (CPR), annual portfolio evaluation (APE), midterm review mission (MMT), final evaluation (FIN), borrower ex post evaluation (BEP), modernization scorecard, clauses (OPMAS), Loan Management System and Financial Reporting System (LMS, FIN), and Portfolio Information System Tables (PISTA).

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<sup>4</sup> For example, majority state-owned enterprises or state-run enterprises with a corporate structure similar to one found in the private sector.

<sup>5</sup> For example, of the 13 countries designated as hardship duty stations under Staff Rule PE-358, Annex I, international employees assigned to Bolivia receive the same 10% salary differential as staff assigned to its neighbors Peru and Brazil; staff at the Bank's Country Office in Bolivia do not receive the leave or supplementary travel benefits that the others do. Some comparators' post allowances are higher than the Bank's.

<sup>6</sup> For example, majority state-owned public-private enterprises or state-run enterprises with a corporate structure similar to one found in the private sector.

<sup>7</sup> With the promulgation of Supreme Decree 21060 on 29 August 1985, Bolivia began a process of structural change that redefined its economic model and gave the State a new role in the economy. Bolivia found itself in a deep economic crisis, having already experienced in that year a severe bout of hyperinflation that had been only temporarily overcome, and the government was facing the prospect of default under the heavy burden of accumulated public debt. It was in these circumstances that President Victor Paz Estenssoro (who years earlier, in a previous mandate, had introduced a much more State-oriented model in the country) launched a series of reforms to implement the economic model that later became known as the "Washington Consensus."

In this way, the economy was liberalized in terms of its labor, goods and financial markets. Seeking to reduce its role in the economy, the government privatized some State-owned enterprises and closed down many others that were insolvent, laying off thousands of workers, especially in the mining sector. The purpose of that reform was to save the country from imminent economic collapse and pave the way for economic development based on an economy driven primarily by the private sector under the rules of the market.

After the presidency of Paz Estenssoro, the new economic model held sway for 20 years. That period saw the successive presidencies of Paz Zamora (1989-1993), Sánchez de Lozada (1993-1997, 2002-2003), Banzer (1997-2001), Mesa (2003-2005) and Rodríguez (2005-2006). Under the first four, the reforms initiated in 1985 were carried further. In particular, in his first administration Sanchez de Lozada privatized a great many State enterprises in the railway, oil, telecommunications, electricity and transport sectors. There were also moves to fiscal decentralization, which extended greater policymaking powers to municipal governments. In this way, the deepening of the 1985 reforms pursued by Sanchez de Lozada greatly increased the flow of foreign direct investment into the country, as a result of which Bolivia experienced significant economic growth during the 1990s and a great improvement in its debt profile.

<sup>8</sup> Discontent with the reforms reached its peak in 2003. At that time Sanchez de Lozada, just into his second term, was struggling to alleviate the economic crisis inherited from his predecessor, Banzer. First, he tried to reduce the heavy fiscal deficit through a new tax on wages. In an attempt to secure new markets for natural gas, the government also announced its intention to export gas to North America through ports in Peru or Chile. That plan ran into sharp opposition from many social sectors, which insisted that the gas should be reserved for local consumption to promote domestic economic development. Overall, the Sanchez de Lozada administration's new reform plan for resolving the crisis encountered heavy political opposition that had been gathering strength as the reforms of the past two decades failed to improve living standards for the poorest segments of society. Unrest erupted nationwide, culminating in October 2003 when the city of El Alto was paralyzed by violent protests. The government responded with crackdown that left many dead. Bereft of support from his political allies, Sanchez de Lozada was forced to resign.

Sanchez de Lozada was succeeded by Carlos Mesa and then by Rodriguez Veltze. Both had their mandates cut short because neither could govern the country in the face of mounting protests, increasingly sector-focused (as in the case of the coca growers opposed to the policy of eradicating coca leaf crops) and also because the economic crisis afflicting the majority of the population showed no signs of an early solution under the system inherited from previous governments.

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- <sup>9</sup> On 18 December 2005, Evo Morales was elected President of Bolivia, garnering 53.8% of the vote. His election was especially significant as he was the first representative of the Aymara community ever to hold that office. He was moreover the first president to be elected by an absolute majority since 1960, and only the third in the entire history of the Republic. Following a constitutional referendum in April 2009, President Morales was reelected by absolute majority in December of that year.
- <sup>10</sup> By all appearances, this has marked the beginning of a stage in which, whatever the ultimate achievements of the current administration, the political participation of indigenous communities will be a constant feature of Bolivian politics.
- <sup>11</sup> A few months after the new president took office, elections were called for the Constituent Assembly, which was to draft a new constitution for the country. The draft of the constitution was completed in December 2007. Lacking a political majority in the Assembly, the government found it necessary to call a referendum to approve the new constitution. This was held in January 2009, and resulted in a victory (61% approval). The new constitution came into force in February of that year, and redefined the roles of the State and the rights of individuals and communities. Among other things, it gave constitutional rank to the recognition of indigenous peoples, meaning recognition of their independence and their own judicial system, in addition to the recognition of all indigenous languages as official languages of the State. It also establishes new levels of national governmental administration, as well as a series of autonomous rights for subnational governments. It defines the country's economic model as social and communitarian, based on the central role of the State and favoring national over foreign investment. It also declares the Bolivian State as the absolute owner of all natural resources.
- <sup>12</sup> Months after taking office, on 1 May 2006, President Morales signed Supreme Decree 28071 nationalizing all gas and oil deposits in the country. This did not in fact mean the expropriation of the foreign companies that were exploiting hydrocarbons in the country. What it did was to take possession of those resources on behalf of the State, as well as total control over production and marketing. It also provided that, for those companies that in 2005 had produced more than 100 million cubic feet per day, 82% of the value of production would go to the State, with the remainder staying in the hands of the company. For those with an output level below that amount, revenues would be divided 50-50 between the State and the company. In addition, the decree provided that the State would take at least a fifty plus one percent plus one **ownership** interest in the five major companies in the sector.
- <sup>13</sup> These powers range from the judicial to the fiscal areas, thus redefining substantially the manner in which the central government relates to local governments and indigenous communities.
- <sup>14</sup> Economist Intelligence Unit (2010). Country Report: Bolivia. September 2010. London, UK. While an opposition exists, comprising political sectors with ties to previous governments, it lacks the political unity needed to be a strong contender to the current administration within the legislature. The regional opposition to La Paz, led by the governors of the Departments of Santa Cruz, Tarija and Beni, has more political clout.
- <sup>15</sup> Economist Intelligence Unit (2010). Country Report: Bolivia. September 2010. London, UK. Bolivia ranks 17th among the 23 countries of Latin America in productivity, and 21st in income per capita.
- <sup>16</sup> International Monetary Fund (2010): Bolivia: 2009 Article IV Consultation. Washington, D.C.
- <sup>17</sup> Demand for Bolivian exports should begin to recover in 2010, as global conditions improve. Economist Intelligence Unit (2010). Op. cit.
- <sup>18</sup> IMF (2010): Op. cit.
- <sup>19</sup> Bolivia received US\$232.5 million in debt relief from the IMF in January 2006 and US\$1.5 billion in debt relief from the World Bank in June 2006. The IDB cancelled US\$1 billion in debt in March 2007.
- <sup>20</sup> Nevertheless, accounting rules require the central Bank to treat as foreign debt the US\$214 million in SDR allocations from the IMF.

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- <sup>21</sup> Central Bank of Bolivia (2010). *Estado de la deuda externa pública al 31 de diciembre de 2009* [Public debt status report as of 31 December 2009]. <http://www.bcb.gob.bo/sitio/deuda2/Publica/loader.php?n1=1&n2=2>. According to the Central Bank, the balance with other creditor countries totals US\$112 million.
- <sup>22</sup> In 2009, bilateral grants from member countries of the OECD Development Assistance Committee amounted to US\$481 million. The United States was the largest contributor, at US\$102 million, followed by Spain, at US\$99 million. Grants from European Union institutions totaled US\$77.8 million in the year. OECD. Creditor Reporting System. <http://stats.oecd.org/Index.aspx?DatasetCode=CRSNEW>. Accessed in April 2011.
- <sup>23</sup> For further details on this process, see Annex 1.1.
- <sup>24</sup> According to the 2009 IMF Article IV Consultation report, this has allowed the government to run consistent fiscal surpluses, with the possible exception of 2010, when for the first time a deficit is projected (of -0.3%). Nevertheless, the Economist Intelligence Unit report (op. cit.) projects deficits of -0.5% in 2010 and -2.5% for 2011.
- <sup>25</sup> Economist Intelligence Unit (2010). Op. cit.
- <sup>26</sup> Ibid.
- <sup>27</sup> World Bank (2009), *Bolivia: Informe de la evaluación de las finanzas públicas* [Bolivia: Public Finance Evaluation Report]. La Paz. Page 41.
- <sup>28</sup> Ibid. Page 101.
- <sup>29</sup> The World Bank's Worldwide Governance Indicators project (2010) reports aggregate and individual governance indicators for 212 countries and territories, covering the following dimensions: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. Scores are standardized on a scale of 0 to 1, with 1 being the best score.
- <sup>30</sup> World Bank (2009). Op. cit. Page 135.
- <sup>31</sup> IMF (2009), Op. cit.
- <sup>32</sup> Economist Intelligence Unit (2010). Country report: Bolivia. September 2010. London, UK.
- <sup>33</sup> The "Doing Business" project provides objective measures of business regulations and their enforcement in 183 economies and selected cities at the subnational and regional level. Economies are ranked on their ease of doing business, from 1 to 183. The index is a simple average of the economy's percentile rankings on nine topics: Starting a business; Dealing with construction permits; Employing workers (not included in 2011); Registering property; Getting credit; Protecting investors; Paying taxes; Trading across borders; Enforcing contracts; Closing a business. The ranking in each area is, in turn, the simple average of percentile rankings of the component indicators. In the 2010 report, Bolivia ranks last in the world (183 out of 183 countries) in the category "employing workers," which covers the ease of hiring (and dismissing) employees.
- <sup>34</sup> For purposes of implementing operational policies, loans and technical assistance programs, the Bank groups is borrowing member countries into four categories (A, B, C and D), based on nine social and economic indicators. The Eighth Replenishment required that a minimum of 35% of lending by volume, and 100% of all concessional funding in the context of the Intermediate Financing Facility (IFF) and nonreimbursable technical cooperation (TC) should go to the poorest countries (Groups C and D). Moreover, the Fund for Special Operations (FSO) was reserved exclusively to Group D countries, which included the region's poorest countries (Bolivia, Haiti, Nicaragua, Guyana, and Honduras). See document PR-102.
- <sup>35</sup> World Bank (2007), *Doing Business 2008*. Washington, D.C.
- <sup>36</sup> Because of a change in methodology, the category "employing workers" was not included in calculating the rankings for the Doing Business 2011 report.
- <sup>37</sup> World Economic Forum (2007), *Global Competitiveness Report 2007-2008*, Geneva, Switzerland.

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- <sup>38</sup> World Economic Forum (2007), *Global Competitiveness Report 2010-2011*, Geneva, Switzerland.
- <sup>39</sup> United Nations Development Programme (2010): *Human Development Report 2010. The Real Wealth of Nations: Pathways to Human Development*. New York, UNDP.
- <sup>40</sup> The Human Development Index (HDI) measures development by combining indicators of life expectancy, educational attainment, and income. The innovative feature of the HDI was to create a single statistic that would serve as a frame of reference for both social and economic development. The HDI sets a minimum and a maximum value for each dimension (called goalposts) and then shows where each country stands in relation to these goalposts, expressed as a value between 0 and 1.
- <sup>41</sup> United Nations Development Programme, 2010. *Regional Human Development Report for Latin America and the Caribbean 2010. Acting on the Future: the Intergenerational Transmission of Inequality*. San José, UNDP.
- <sup>42</sup> UNDP (2010). *Op. cit.*
- <sup>43</sup> It is important not to read too much into the decline in these indicators, since creation of the Single Student Registry (RUDE) has led to an improvement in the collection of administrative data.
- <sup>44</sup> The Bank had a major presence in the education sector in the mid-1990s when it headed the Education Reform Program (PRE). However, it withdrew from the sector with the launch of the current strategy.
- <sup>45</sup> United Nations Development Programme (2010). *Informe 2010: Los cambios detrás del cambio* [2010 Report: The Changes Behind the Change]. La Paz.
- <sup>46</sup> While the rural housing deficit is less severe, the construction materials used are of lower quality than those in urban areas.
- <sup>47</sup> Among the programs that comprise the social safety net are PROPAÍS (to create 100,000 emergency jobs), the Juancito Pinto voucher (an incentive for children to remain in primary school), *Desnutrición Cero* (“Zero Malnutrition”) and *Renta de Dignidad* (a universal old-age pension).
- <sup>48</sup> Centro de Estudios Monetarios Latinoamericanos (CEMLA) and MIF-IDB (2010). “*Programa de mejora de la información y procedimientos de los bancos en el área de remesas: Bolivia*” [Program to Improve Bank Information and Procedures in the Area of Remittances: Bolivia]. Mexico City.
- <sup>49</sup> *Ibid.*
- <sup>50</sup> Office of Evaluation and Oversight (2008): *Country program evaluation: Bolivia 2004-2007* (document RE-340). Inter-American Development Bank, Washington, D.C. Section 5.3.
- <sup>51</sup> *Ibid.* In terms of effectiveness, the CPE examined outcomes from operations in three key sectors: education, infrastructure, and internal revenue and customs. The evaluation found that the Bank’s success “was related to its level of engagement and to the value added that it brought.” In education, the CPE concluded that “the Bank’s early involvement was engaging, it was one of the sector’s leaders and one of the proponents of reform.” However in the post-reform period the Bank stepped away from that role. It has not approached the new government with sector recommendations, proposals, diagnostics or other sector work that would assist the government in implementing its new education policy. In the transportation sector, the results were varied. On one hand, the evaluation mentions that “the Bank has certainly had value added in terms of financing,” but concludes that the Bank “has had a limited role in addressing cost overruns and engineering issues, in dealing with associated risks in the sector, in assessing development results in the sector, and in promoting environmental safeguards and mitigation.” Similarly, the Bank’s participation in customs revenues was limited when it came to dealing with the problem of illicit imports and exports. By contrast, the results were satisfactory with respect to internal revenue. There, the Bank “used TC and nonlending resources to make technical inroads and lay the foundation for the tax administration reforms undertaken. This engagement not only generated more lending in the sector, it also generated exceptional results, reflected by lower tax evasion and increased revenues.”

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- <sup>52</sup> The recommendations from the CPE were: (i) to provide funding to maintain a continuous program of strategic analytical inputs in Bolivia; (ii) to engage the country early, continuously and at both central and line ministry levels; (iii) to assess the role of both procurement and technical review policies and procedures in producing both high-quality and low-cost products, particularly in roads; (iv) to assess the role of the Bank's results monitoring, evaluation and economic evaluation procedures and policies in producing useful and timely evidence on program effectiveness.
- <sup>53</sup> IDB (2008): Op cit. (GN-2485-2, 2008: 6).
- <sup>54</sup> According to the country strategy, "The debt relief through the Fund for Special Operations (FSO) approved by the Bank in 2007 under the MDRI took effect retroactively to 1 January of last year and, as noted above, represents for Bolivia a reduction of US\$741 million in principal on its debt to the Bank, and an interest savings of US\$307.3 million. The Bank's approval of debt relief is accompanied by a reform of the mechanism for allocating the Bank's concessional resources in the form of parallel lending until 2015, involving a blend of FSO and Ordinary Capital (OC) funds. During the transitional period 2007-2008, Bolivia will continue to receive an important concessional element (37%), with an annual allocation of US\$74.3 million (30% FSO and 70% OC)" (document GN-2485-2, 2008: 6). Following an evaluation of FSO debt relief under the MDRI, and an analysis of the country's debt sustainability and the performance of its active portfolio, in 2010 the Bank authorized a change in the blend for Bolivia to 25% FSO and 75% OC, respectively, for the 2011-2012 allocation period.
- <sup>55</sup> IDB (2008): Op cit. (GN-2485-2, 2008: 8).
- <sup>56</sup> Ministry of Development Planning (2006). *Plan Nacional de Desarrollo: Bolivia Digna, Soberana, Productiva y Democrática para Vivir Bien* [National Development Plan: A Dignified, Sovereign, Productive and Democratic Bolivia for Living Well]. The Plurinational State of Bolivia.
- <sup>57</sup> The National Development Plan (NDP) describes in detail what is understood by the concept of "Living Well:" in summary it refers to "access to and enjoyment of material goods and effective, subjective, intellectual and spiritual fulfillment, in harmony with nature and in community with human beings" (Republic of Bolivia, 2006:10).
- <sup>58</sup> Ibid. (19).
- <sup>59</sup> For further detail on the objectives of the NDP for each sector, see Annex 2.2.
- <sup>60</sup> IDB (2008): Op cit. (GN-2485-2, 2008: 5).
- <sup>61</sup> The studies are: Oil and Debt Windfalls and Fiscal Dynamics in Bolivia; and Situation and Outlook of Micro-Businesses and SMEs and Their Contribution to the Economy. The technical notes are the following: Environmental Issues in Bolivia; Improving Public Management; Undocumented Citizens – Under-Registration of Children and Adults; Agricultural Technology; Plant and Animal Health; Irrigation; Trade and Integration; Water and Sanitation; Tourism; Territorial Targeting for Rural Development; Actions for Eradicating Forced Labor and Debt Servitude; Road Issues; and Indigenous Issues.
- <sup>62</sup> IDB (2006): Policy Dialogue Proposal 2006. IDB Contribution to the National Development Plan of Bolivia. Regional Operations Department 1. Washington, D.C.
- <sup>63</sup> IDB (2008): Op cit. (GN-2485-2, 2008: 7).
- <sup>64</sup> Ibid. (GN-2485-2, 2008: 4).
- <sup>65</sup> Ibid. (GN-2485-2, 2008: 6).
- <sup>66</sup> Annex VI presented some further detail on the dialogue with civil society members who were consulted, and the suggestions they put forward.
- <sup>67</sup> GN-2485-2, 2008: iv.
- <sup>68</sup> the operations program is presented in Annex VIII of the strategy document
- <sup>69</sup> GN-2485-2, 2008: 8.
- <sup>70</sup> GN-2485-2, 2008: 8.

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- <sup>71</sup> GN-2485-2, 2008: 9.
- <sup>72</sup> Ibid.
- <sup>73</sup> Ibid.
- <sup>74</sup> GN-2485-2, 2008: 10.
- <sup>75</sup> Ibid.
- <sup>76</sup> The scope of the Bank's proposal was also reflected in the programming, which included projects relating to water and sewer, neighborhood improvement, and rehabilitation of the center of La Paz.
- <sup>77</sup> GN-2485-2, 2008: 11.
- <sup>78</sup> Ibid.
- <sup>79</sup> Proposed activities included: modernizing the civil register; design and execution of a National Action Plan for Eliminating Forced Labor; strengthening micro-finance institutions through the Multilateral Investment Fund (MIF), Social Entrepreneurship Program, and support for indigenous entrepreneurship; and improving methodologies for targeting basic services. Although the Results Matrix called for only one technical cooperation operation under this pillar, this strategic focus was notably absent from the operating program for the three-year period 2008-2010.
- <sup>80</sup> GN-2485-2, 2008: 8.
- <sup>81</sup> The topics proposed by the Bank include: budgetary and financial management, tax and customs administration, combating corruption, multiyear budgeting, strengthening of foreign trade institutions, institutional development, strengthening institutions for enforcing environmental safeguards, and strengthening human resource management.
- <sup>82</sup> For example, the results matrix identified the indicator "pilot programs for social welfare and community development in selected urban and rural communities" for measuring the intermediate objective of "improved human development indicators in communities with high poverty rates." For the CS to have been evaluable, it would at least have had to have defined milestones instead of references cast in terms of trends such as "improve," "increase" or "expand." These definitions not only characterize trends, but imply that any change in the indicator that presents the same proposed sign, however small, would be considered positive.
- <sup>83</sup> GN-2485-2, 2008: iv.
- <sup>84</sup> Inter-American Development Bank, 1995. Document Implementing the Eighth Replenishment poverty targeting mandate (document GN-1763-27): Washington, D.C.
- <sup>85</sup> The classification of operations was taken from the Opus system, where the loans are self-classified in terms of whether they have a direct impact on poverty reduction and equity enhancement.
- <sup>86</sup> Most of these loans were part of pillar 1: productivity, employment and productive infrastructure.
- <sup>87</sup> GN-2485-2, 2008: 11.
- <sup>88</sup> GN-2485-2, 2008: 7.
- <sup>89</sup> BO-X1004: Spanish Fund: Water and Sanitation in Peripheral Zones; BO-G1001: Investments: Adaptation to climate change, water sector; and BO-X1001: Sustainable Management of Ecosystems Altura Norte Potosí.
- <sup>90</sup> BO-T1126: Implementation Plan: Modernization. National Civil Register.
- <sup>91</sup> GN-2485-2, 2008: 10.
- <sup>92</sup> IDB (2010): Country program document 2010.
- <sup>93</sup> GN-2485-2, 2008: 8.
- <sup>94</sup> IDB (2010): Country program document 2010.
- <sup>95</sup> Approvals to 31 December 2010.
- <sup>96</sup> Excluding the TFFP-Banco BISA S.A. guarantee.

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- <sup>97</sup> Disbursements to 31 December 2010. Disbursements were estimated in the strategy at US\$66.5 million as an annual average (US\$199.5 million) GN-2485-2, Annex IX.
- <sup>98</sup> IDB personnel statistics. Positions occupied means the total of positions authorized less vacancies. Personnel by category and place of work.
- <sup>99</sup> Only sector specialists were taken into account in the calculation.
- <sup>100</sup> Operating under the Paris Declaration, the Bolivia Development Partners Group (GruS) supports the leadership of the Government of Bolivia in the coordination and harmonization of international cooperation, so as to make it more effective and better aligned to meet the objectives of the National Development Plan (NDP) and the Millennium Development Goals (MDGs), and facilitate interaction and coordination with the public and private institutions and donors active in the country. The GruS members are 14 bilateral and seven multilateral agencies, including the World Bank, the CAF, the IMF, and the United Nations.
- <sup>101</sup> International cooperation agencies have been critical of their experience working with the IDB in the case of one loan to promote innovation in agriculture and development. Specifically, they said the IDB failed to consult them on decisions in relation to changes in the program and a certain inflexibility in procurement procedures.
- <sup>102</sup> However, GruS members related anecdotically that they had not been informed about work in the sector by the IDB until the presentation of the Spanish Fund project, Water and Sanitation for Periurban Areas (BO-X1004). This was somewhat disconcerting, since programs of this magnitude require significant preparation times, and the information could have been shared in order to avoid duplication of effort. Nevertheless, it is important to note that the dialogue is open and active in relation to a new operation in the water sector between the IDB and the GruS members.
- <sup>103</sup> By consensus and with the approval of all members, a GruS coordination team has been formed, made up of the cooperation directors/representatives of two bilateral donors and one multilateral agency. This team, called the GruS Troika, is responsible for the identification, preparation, and coordination of activities with the government and with the GruS members. The three Troika members chair the GruS on a rotation basis, every six months.
- <sup>104</sup> National Statistics Institute, 2007.
- <sup>105</sup> IDB (2010): Annex IV. Case Studies. Office of Evaluation and Oversight, Washington, D.C., May 2010.
- <sup>106</sup> Data to July 2010.
- <sup>107</sup> National Statistics Institute, 2008.
- <sup>108</sup> Only Panama and Chile have a similar performance record; the average for the other countries of the region is below 1.5% of GDP. Source: OVE (2010: Annex I. Road Infrastructure Situation in LAC: Conditions and Investment. May 2010).
- <sup>109</sup> IDB (2010): Annex IV. Case Studies. OVE, May 2010.
- <sup>110</sup> Projects that did not achieve the criterion for evaluation by results, and their level of disbursements are: BO0200 Roads Program for the Northern Corridor, La Paz-Caranavi segment (2004, US\$33.1 million, 30%); BO-L1011 Improvement of the Santa Bárbara-Rurrenabaque-Corredor Norte segment (2006, US\$120 million, 28%); BO-L1015 Road Maintenance to Standard II (2007, US\$21 million, 29%); BO-L1031 Road Conservation for the East-West Corridor (2009, US\$25.0 million, 5%); BO-L1056 Pre-investment in Strategic Transportation Projects (2010, US\$15.8 million, 0%; not yet in effect).
- <sup>111</sup> OVE had evaluated both projects in the previous CPE, finding that “the Bank’s value added has fallen short in addressing some of the fundamental priorities of the current ABC administration. It has had a limited role in addressing cost overruns and engineering issues, in dealing with associated risks in the sector, in assessing development results in the sector, and in promoting environmental safeguards and mitigation. In the last case, that of environmental safeguards and mitigation, a lack of adequate supervision by headquarters is to be noted.” CPE Bolivia 2004-2007, Washington, D.C. (document RE-340).

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- <sup>112</sup> The expected outcomes are: (i) to reduce travel time for heavy vehicles over the entire Santa Cruz-Puerto Suárez corridor from seven days to 20 hours; (ii) to increase daily vehicular traffic by a factor of 12; and (iii) to reduce vehicle operating costs along the corridor by 80%.
- <sup>113</sup> Document RE-340.
- <sup>114</sup> Between 2008 and 2010, the Bank's electricity portfolio totaled US\$220.8 million, divided among five operations. Of these, only project BO-L1002, Bolivia Electric Transmission Lines (2004-A-1 US\$31.0 million; 2008, A-2 US\$3.8 million) could be evaluated. The four energy projects that were not evaluated and their disbursement levels are: BO0224 Rural Electrification (2005, US\$20 million, canceled without disbursement); BO-L1050 Rural Electrification (2010, US\$60 million, not effective); BO-L1043 Misticuni Renewable Hydroelectric Energy Project (2009, US\$101 million, 3%); BO-L1053 Environmental Management of the Misticuni Basin (2010, US\$5.0 million, 0%).
- <sup>115</sup> Source: Energy Division, IDB. Sector note prepared for CS 2011-2015.
- <sup>116</sup> Project supervision report (2010).
- <sup>117</sup> Baseline: 64% in 2001. Source: PSR 2009, prepared in August 2010. IDB.
- <sup>118</sup> There were 10 productivity and employment loans in execution during 2008-2010, of which four were approved between 2002 and 2007 and six during the current strategy. During the period of evaluation, the old loans were completed and evaluated. The six loans that have not reached the criteria for evaluation and their level of disbursements are: BO-L1037 *Plant and Animal Health and Food Safety* (2008, US\$10 million, 11%); BO-L1040 *Rural Agrifood Initiatives* (2009, US\$20.0 million, 3%); BO-L1048 *TFFP-Banco BISA, S.A.* (2010, US\$7 million, 0%); BO-L1061 *Employment Support* (2010, US\$20.0 million, not yet effective) and BO-L1039 *Community-Based Tourism* (2010, US\$20 million, not yet effective); BO-L1001 *Entrepreneurial Support Fund* (2010, US\$10.0 million, 1%). As well, 22MIF operations were approved during the period of the strategy, including four small projects. The main objectives of these operations related to financial services and the extension of credit. As noted in the characterization of the 2008-2010 portfolio, opportunities for the Bank to provide financing to the private sector virtually disappeared during the period of the strategy. Consequently, MIF support was crucial for channeling support to the sector, and to micro and small enterprises in particular.
- <sup>119</sup> Project completion report (PCR).
- <sup>120</sup> Income increases were measured by different regional foundations for agricultural technology development (FDTAs), and did not use a standard methodology. However, the FDTA Valles achieved an increase of 104% in its PITAs; using a similar method the FDTA Altiplano achieved an average increase of 83%; and FDTA Trópico Humedo achieved an average increase of 65%. According to the 2006 evaluation of effects and impacts, FDTA Chaco found an increase of 108%.
- <sup>121</sup> Although the PCR uses agricultural exports as a proxy for performance, the lack of data for this indicator makes it impossible to gauge the project's contribution to this change.
- <sup>122</sup> The proposed indicator was the reduction in the level of rural poverty and indigence, and outcomes were to be demonstrated with the use of national statistics from INE and household surveys.
- <sup>123</sup> For Bolivia, this represented the cancellation of US\$75 million of FSO resources. PCR BO0179.
- <sup>124</sup> The specific objectives of the program were: (i) to improve the quality of tourism services and (ii) to develop sustainable tourism projects.
- <sup>125</sup> The Office of the Deputy Minister for Tourism (VMT) was the executing agency for subprogram I, while the Fund for Development of the Financial System and Support for the Productive Sector (FONDESIF) was responsible for subprogram II. The VMT was merged with the Ministry for Productive Development and the Plural Economy, but FONDESIF remained under the Ministry of Planning, so that the project was still divided between two ministries. During this period there were successive four Presidents of the Republic, 14 ministers, and 12 deputy ministers. In 2010, a fifth contractual amendment was signed for the project.

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- <sup>126</sup> For subprogram I, the monitoring reports showed that in the summer 2008 the project coordination unit, after three international requests for proposals, contracted the services of a consulting firm to develop this component; however, the contract was canceled and a new tendering process was launched. A firm was finally contracted in 2009, but the August 2009 progress report showed that the situation with the component could not be classed as satisfactory. The subprogram II went through at least three changes of coordinator, including a spell in the second half of 2008 when there was no coordinator accepted by the Bank.
- <sup>127</sup> The VMT is responsible for updating it and ensuring that the prefectures upload information.
- <sup>128</sup> The original quality indicator was: the rating of credits granted through the program as a ratio of the rating of credits granted through the financial system.
- <sup>129</sup> In addition to the six operations analyzed by OVE, there were another six loans that did not achieve the criteria to be evaluated. Water and Sanitation: BO-L1013 Small Community Water Program (2007, US\$21.0 million, 46% disbursed); and BO-L1034 Water and Sewerage Program in Periurban Areas, Phase I (2009, US\$20.0 million, 5% disbursed). Housing: BO-L1038 Neighborhood Improvement, Phase I (2008, US\$30.0 million, 21% disbursed); and BO-L1028 Drainage, Municipios of La Paz and El Alto (2010, US\$30.0 million, not eligible until end of 2010). Social Welfare: BO-L1012 Social Welfare and Integral Community Development (2007, US\$10.0 million, 17% disbursed); and BO-L1032 Eradication of Extreme Poverty, 1(2009, US\$20.0 million, 5% disbursed).
- <sup>130</sup> These include the revision to the institutional framework in 1999, which opened the way for private participation in the sector, and the creation of the Superintendency of Basic Sanitation (SISAB); the concessioning of water and sewer systems to the private sector for La Paz/El Alto (1997); and signature of the concession contract for the Cochabamba system (1999); the popular uprisings that took place in 2000 in Cochabamba and in 2005 in El Alto against water privatization, which resulted in termination of the contracts and creation of the Social Public Water and Sanitation Enterprise (EPSAS); and the elimination of SISAB in 2006 (Project completion report BO-0125).
- <sup>131</sup> The first two objectives were modified: originally the project was to be confined to communities of up to 5000 inhabitants, and was to “strengthen the operational capacity of municipios and other executing and operating entities for these projects” (Loan Document, Basic Sanitation Program for Small Municipios, 1999).
- <sup>132</sup> The last official figure reported by UDAPE is for 2007.
- <sup>133</sup> Loan BO-L1013, Small Community Water Program, seeks to increase the coverage of potable water service and wastewater disposal in rural areas, benefitting 500 new rural communities. Loan BO-L1034, Water and Sewerage Program in Periurban Areas, Phase I, which is part of the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean, seeks to increase access to water supply and sewerage services in the periurban areas of El Alto, La Paz, Cochabamba, Santa Cruz, Tarija, and other cities
- <sup>134</sup> BO0008 had 3 components for achieving these objectives: (i) establishing conditions to make real estate and financial markets operate more efficiently; (ii) introducing mechanisms to give low-income groups access to the credit market; and (iii) implementing a policy of subsidies for the most vulnerable groups.
- <sup>135</sup> The program contained three components to this end: (i) rehabilitation of the urban environment; (ii) promotion of social and economic development; and (iii) institutional strengthening.
- <sup>136</sup> Pando Solares Consultores, “Evaluación de medio término del programa de revitalización y desarrollo urbano” [Midterm Evaluation of the Urban Revitalization and Development Program]. 2009.
- <sup>137</sup> Ibid. (67).
- <sup>138</sup> The program’s institutional strengthening component was to provide support in the following areas: (i) a La Paz city center development corporation; (ii) strengthening of operating areas; (iii) strengthening of the administrative and financial area; and (iv) program promotion and dissemination. The program contributed substantially to points (ii), (iii), and (iv). Design and implementation of the city center development corporation did not progress.

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- <sup>139</sup> The city of La Paz is constantly subject to natural hazards such as flooding and landslides because of its geological, hydroelectric and topographic conditions and the lack of proper maintenance of its urban infrastructure. The most recent such events, in 2000 and again in 2005-2006, had a serious impact on the well-being of the population and highlighted the defects in the storm drainage system. The project included two components: (a) flooding and erosion control, and (b) institutional development and environmental management.
- <sup>140</sup> PMR, with cutoff date 31 March 2011.
- <sup>141</sup> In follow-up to the achievements and lessons learned with respect to this operation, the Bank approved a new loan of US\$30 million in 2010 (BO-L1028, Drainage in the Municipios of La Paz and El Alto).
- <sup>142</sup> The project's objective was to "minimize, control, counteract and compensate for direct, indirect, cumulative, long-term and synergic socioeconomic impacts that are caused by the implementation and operation of the Santa Cruz-Puerto Suárez Corridor [including] the promotion of environmental conservation and sustainable economic and social development in the area of influence in accordance with Bolivian law and Bank standards." The operation included in its design three components: (i) Action Plan comprising the following programs: titling and registry of lands; indigenous; environmental conservation; institutional strengthening and sustainable municipal development; and communications; (ii) prevention and mitigation plan, with the following programs: compensation for losses; protection of archaeological and cultural heritage; information and social interaction; mitigation of impacts in construction operations; environmental supervision of construction; and environmental auditing; and (iii) socioenvironmental management system.
- <sup>143</sup> Initially, the Ministry of Sustainable Development and Planning (MDSP) was the project executing unit, but execution was subsequently transferred to the Prefecture of Santa Cruz, to which the National Institute of Agrarian Reform (INRA) and the Bolivian Highways Administration (ABC) were to report. However, because of political differences between these institutions it was decided to establish three executing units for the project: the Santa Cruz Prefecture, INRA and ABC.
- <sup>144</sup> For example, activities under the land titling component have not yet begun, and there are serious delays with the environmental conservation program; work on the program for compensating losses has been very slow since the last inspection in 2009; the communication component needs to be refocused and given greater resources. On the other hand, the indigenous program is progressing well.
- <sup>145</sup> PMR 31 March 2011.
- <sup>146</sup> The expected outcomes of the program were: (i) registration in the property registry of property rights on 140,000 regularized rural properties in the departments of Santa Cruz and Pando; and (ii) modernization and linking of the cadastral and registry data systems, in order to consolidate the legal cadastre throughout the country and lay foundations for its permanent maintenance.
- <sup>147</sup> Land Regularization and Legal Cadastre Program: Proposal for execution of the extended contract (January to May 2011), delivered to the IDB on 31 January 2011.
- <sup>148</sup> Between 2008 and 2010, there were eight active operations in the sector, for a total of US\$216.6 million. According to the criterion used in this CPE, four of these operations qualified for outcome analysis: BO-L1007 Consolidation of Institutional Reforms in the Revenue Area, BO0196 Modernization of Municipal Financial Administration, BO0225 Support for the Fiscal Sustainability Program, and BO0180 Local Development and Fiscal Responsibility. The operations that were not considered for evaluation, and their disbursements, are: BO-L1006, National Public Investment System (2005, US\$13.0 million, 28%); BO-L1047, Transparency and Anticorruption Program (2009, US\$5.0 million, 18%); BO-L1010, Effectiveness in Public Administration II (2010, US\$30.0 million, 100%); and BO-L1061, Fiscal Policy and Decentralization Support (2010, US\$20.0 million, 100%). Although the last two operations have been fully disbursed, both are PBLs, and are subject to outcome evaluation in 2012. Also noteworthy is the approval and disbursement of a nonreimbursable technical cooperation operation for US\$250,000 to support the government in adjusting its fiscal policy framework at both the central and subnational levels. Similarly, US\$150,000 in additional assistance has been programmed for 2011. This type of intervention is in line with the fourth recommendation of this evaluation.

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<sup>149</sup> According to the Loan Document, SIGMA is “a package of policies, principles, regulations, technical procedures, information technology, other media and/or resources, and agencies that deal with the planning, management and monitoring of public funds.”

<sup>150</sup> Ibid.

<sup>151</sup> It is worth noting the first component has produced notable results, if evaluated under the new metric. Thus, 93% of the 2010 budget corresponding to municipios that are the capital of their department was administered through the SIGMA system; 100% of the 2010 budget for the local governments of La Paz, Cochabamba, Santa Cruz, Tarija, Oruro, Potosí, Chiquisaca, Pando, and Beni was administered through SIGMA; 100% of central government agencies operate with SIGMA via links with the Metropolitan Fiber Optic Network and Internet VPN; and 100% of subnational entities are connected to the central node transmitting SIGMA information.

<sup>152</sup> The executing agency for the project was the Ministry of Finance, at that time called the Ministry of Economy and Public Finances.

<sup>153</sup> The steps needed to begin implementation of this component were not taken. This required the hiring of consultants and the purchase of equipment for maintaining and consolidating the system, as well as the design of the process whereby the Ministry of Economy would incorporate SIGMA into its work. These actions were not taken, in part because ministers decided not to hire consultants into the ministry, and there was no consensus on a plan for putting the system to use. It was only in the second quarter of 2009 that a plan was approved, prepared with Bank financing.

<sup>154</sup> PPMR June 2009.

<sup>155</sup> The Bank decided to channel all the funds for this subprogram to the component for digitization of SENASIR records, and to finance the remaining outputs (professional development and training of human resources and reengineering of critical processes) with another nonreimbursable TC. Nevertheless, the latter operation was cancelled subsequently by the government, leaving only the digitization component in place.

<sup>156</sup> Irani Arraiz (2008), “Tax administration reform in Bolivia,” discussion paper OVE/TDP-06/08. OVE.

<sup>157</sup> The program had three subcomponents: (i) strengthening policy oversight and formulation capacity; (ii) improvements in the efficiency of tax administration; and (iii) improvement and consolidation of the customs administration reform. The executing agencies were the Internal Revenue Service, the Customs Administration, and the Office of the Deputy Minister for Taxation. Loan document.

<sup>158</sup> PPMR, June 2009.

<sup>159</sup> PPMR, June 2009; PMR, October 2010 (draft).

<sup>160</sup> The indicator of the policy oversight and formulation capacity component is the weighted sum of compliance with management agreements among the executing agencies.