

OPERATIONS EVALUATION DEPARTMENT
BOLIVIA COUNTRY ASSISTANCE EVALUATION (CAE)
APPROACH PAPER

Background

1. Bolivia is a landlocked, lower middle income country with a per capita income of roughly US\$950 (Atlas method) in 2003 and a population of 8 million. A consistent record of decisive macroeconomic and structural reforms since 1985 notwithstanding, growth has been about average for Latin America since the start of reforms and poverty has remained prevalent. About one-half of the population lives on less than \$2 per day and non-income indicators of poverty, although improving, still indicate substantial deprivation. Transfers of Official Development Assistance have ranged between 6 and 12 percent of GDP since 1985 with no apparent trend, or between \$33 and \$110 per capita per year, ranking Bolivia high among recipients of aid. The country has one of the highest levels of informal activity and one of the lowest rated competitiveness environments among rated countries.¹ The discovery of new gas reserves, increasing proven reserves from 6.6 to 46.5 trillion cubic feet, has opened up both new development possibilities and new challenges.

2. The political system, while remaining democratic since the elections of 1982, is highly fragmented, reflecting ethnic diversity and deep social divisions. These divisions have reportedly become deeper since 1999.² Growing discontent culminated in a series of violent protests over gas export policy that led to the resignation of President Sanchez de Losada in October 2003, and succession under the constitution of the vice president, Carlos Mesa, to the presidency.

3. OED last completed an evaluation of the Bank's assistance to Bolivia over the period 1986-1996 in 1998.³ This was intended as a contribution to the design of the Bank's 1998 country assistance strategy (CAS) for FY99-03.⁴ The present evaluation

¹ In the year 2002, Bolivia ranked second to last among 74 countries in terms of competitiveness. The only country that fared worse than Bolivia was Haiti. World Economic Forum, *The Global Competitiveness Report*, 2002.

² *Bolivia From Patronage to a Professional State- Bolivia Institutional and Governance Review*, Report No. 20115-BO, August 25, 2000. See also Daniel Kaufmann et al, *Sustained Macroeconomic Reforms, Tepid Growth: A Governance Puzzle in Bolivia?* (February, 2002). World Bank Research Working Paper. <http://ssrn.com/abstract=316863>.

³ OED, Bolivia Country Assistance Evaluation. Report No. 21412. November 20, 2000.

⁴ IBRD, Memorandum of the President of the International Development Association, and the International Finance Corporation on a Country Assistance Strategy of the World Bank Group for the Republic of Bolivia, Report No. 17890-BO.

will focus on the Bank's assistance to Bolivia over the period FY99–04 under the 1998 strategy and the first year of the subsequent 2004 strategy for FY04-05.⁵

The Bank's Assistance Program FY99-04

4. The Bank's assistance to Bolivia over the period FY99-05 can be divided into two phases, FY99-03, and FY04-05. The FY99-03 CAS supported three of the four "pillars" of the Government of Bolivia's National Action Plan (1998-2002).⁶ The overall objective of the Plan was to reduce poverty through higher sustainable growth—projected at the time of the 1999 CAS to average about 5 percent per annum. The specific objectives under each of the pillars supported by the Bank were:

- *Opportunity*: (i) strengthening the financial sector, (ii) enhancing the regulatory framework for key infrastructure sectors and (iii) improving physical infrastructure.
- *Equity*: (i) increasing social expenditures, (ii) improving the efficiency and quality of social services and (iii) boosting the productivity of small farmers.
- *Institutionality*: (i) developing an efficient and transparent state, (ii) modernizing the legal framework for the private sector, (iii) strengthening the judicial system and (iv) deepening the decentralization process.

5. In view of the delicate political situation in the country since the resignation of the president in October, the 2004 CAS emphasizes support to the government's near term political and economic stabilization objectives. On the political front, the government is focusing on:

- Revising the laws governing the extraction of Bolivia's oil and gas resources;
- Submitting the decision to export natural gas to a public referendum; and
- Convening a Constitutional Assembly to modify the existing Constitution.

6. On the economic front, the government is pursuing three related economic objectives:

- Restoring macroeconomic stability;
- Reorienting some public expenditure toward high-visibility programs that respond to underlying factors that led to social conflict, especially in sensitive geographical areas; and
- Re-launching the institutional reform program and anticorruption efforts.

⁵ IBRD, Report and Recommendation of the President of the International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, and Multilateral Investment Guarantee Agency to the Executive Directors on a Country Assistance Strategy for the Republic of Bolivia, Report No. 26838-BO.

⁶ The fourth pillar—*dignity*, the removal of Bolivia from the drug circuit by 2002—was considered outside the competence of the World Bank.

General Approach to the Evaluation

7. The CAE will evaluate Bank assistance in relation to these objectives. The CAE will evaluate the relevance of Bank objectives in the context of the development constraints facing Bolivia at the time the CASs were prepared, and the realism of Bank assistance objectives in view of the political environment for development and capacity of the government to carry forward. In evaluating the Bank's Bolivia program, the evaluation will also draw, as appropriate, on evidence and findings in recent or ongoing OED evaluations of the PRSP process, HIPC, CDF, pension reform, financial sector reform, indigenous peoples, extractive industries, and trade reform.

8. The CAE will evaluate the efficacy of Bank assistance in supporting the attainment of these objectives. This will be done for each objective in three steps. First, status of progress toward objectives will be determined based on an examination of relevant indicators of performance. The 1999 and 2004 CAS documents contain clear statements of Bank assistance objectives and quantitative monitorable targets for reduction of income and non-income aspects of poverty. Both indicators defined in CASs and related indicators will be examined. Second, the performance of Bank products and services (lending, analytical and advisory services and aid coordination) intended to contribute to the achievement of Bank objectives will be examined, drawing both on evaluation and portfolio implementation evidence. Third, the CAE will assess the relative contribution to attainment of objectives of the Bank's interventions, taking into account the interventions of other donors, the Government and exogenous factors.

Issues Focus of the Evaluation

9. The Bank confronted a number of overarching strategic issues in its relationship with Bolivia over the period in question (FY99-04) that the CAE will address.

- *Natural Resource Wealth.* Bolivia's rich natural resource endowment presents both opportunities for substantial income growth, and social, political, and environmental challenges. Has the Bank been effective in helping Bolivia to manage its resources for sustainable poverty reduction?
- *Ethnic Diversity and Social Inclusion.* Bolivia's ethnic diversity and issues concerning social inclusion have had an increasing impact on its politics and development prospects. How has the Bank's strategy addressed these issues?
- *Relevance and Implementation of Findings of Previous CAE and Other Evaluations.* Were the recommendations of the 1998 CAE and those of other evaluations relevant over the period under review? If so, to what extent did the Bank incorporate and implement them in subsequent strategies and operations?
- *Adaptation to Changing Environment.* The environment for Bank assistance changed fairly dramatically since the formulation of the 1999 Bank strategy. The Bank's strategy shifted from one geared to support continuing progress on structural reform and medium term development issues to focus on maintaining macroeconomic and social stability, preserving the reforms that have been

implemented, and re-launching institutional reforms. Did the Bank adjust its strategy in a timely and appropriate manner? Is there anything that the Bank, in concert with other donors, could have done that might have helped Bolivia to avert (e.g., more intensive donor support to mitigate the social impact of coca eradication) or mitigate the severity of the current social and political crisis?

- *Aid Dependence and Donor Coordination.* Bolivia has long been heavily-dependent on aid flows, and has received support from a number of donors. How has the Bank dealt with donor coordination issues and with the potential aid dependence problem?
- *CDF Participation.* Bolivia was a pilot for the application of CDF principles. How did its participation in this special regimen contribute to developments and the outcomes of Bank assistance over the evaluation period?
- *High Indebtedness.* Notwithstanding substantial debt relief under HIPC, Bolivia's debt—including domestic debt—remains high. What effect did this have on the design and implementation of Bank assistance?

CAE Outputs and Timetable

10. The CAE will be sent to CODE in FY05. The main mission will be in the Fall of 2004. Peer reviewers are Jorge Garcia-Garcia (OEDCR) and Luca Barbone (ECCU2/PREMPR).