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**BOLIVIA**  
**COUNTRY ASSISTANCE EVALUATION**

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## ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities
APL	Adaptable Program Lending
CAF	Andean Finance Corporation
CAS	Country Assistance Strategy
CAS CR	CAS Completion Report
CD	Country Director
CDF	Comprehensive Development Framework
CPAR	Country Procurement Assessment Report
EIU	Economist Intelligence Unit
ESSD	Environmentally and Socially Sustainable Development Network
ESW	Economic and Sector Work
GDP	Gross Domestic Product
GNI	Gross National Income
GOB	Government of Bolivia
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICRG	International Country Risk Guide
IDA	International Development Association
IDB	Inter-American Development Bank
IMF	International Monetary Fund
LCR	Latin America and the Caribbean region
LIL	Learning and Innovation Loan
MDG	Millennium Development Goals
NPV	Net Present Value
PER	Public Expenditure Review
PRSP	Poverty Reduction Strategy Paper
PSAC	Programmatic Structural Adjustment Credit
SAC	Structural Adjustment Credit
SIGMA	Integrated Financial Management System
SIRESE	Sectoral Regulatory Agency
SNC	National Roads Agency
USAID	United States Agency for International Development

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## Preface

This Country Assistance Evaluation (CAE) examines the Bank's assistance strategy for Bolivia for Bank fiscal years 1999 through 2004. Two Country Assistance Strategies (CASs) were operative during this period, a CAS discussed by the Board in 1998 that took effect at the beginning of FY99, and a CAS discussed by the Board early in calendar year 2004 that was retroactive to the beginning of FY04.

This CAE examines how the Bank's assistance dealt with the major issues affecting Bolivia's development during the period under review and how it contributed to the accomplishments of the country. The report assesses the relevance, efficacy, and efficiency of that assistance and recommends actions for the future. The evaluation is based on a review of World Bank documents and on interviews with government officials, Bank staff, officials from other donor agencies, members of non-governmental organizations, academics and people in private sector. A list of people met and interviewed is shown in Annex B. A Bank mission visited Bolivia from October 22, 2004 to November 6, 2004. The contribution and the cooperation of government officials and agencies, NGOs, and donors are gratefully acknowledged.

Comments from the Bank's Regional Management have been incorporated in the report and attached as Annex D. The Regional response to the Management Action Record is attached as Annex F. A draft of the CAE was shared with the Government of Bolivia. The comments have been incorporated into the report and are attached as Annex E. A discussion of the CODE Subcommittee was held on July 11, 2005, and a summary of this discussion is attached as Annex G.

The Country Assistance Evaluation was written by Robert J. Anderson (Task Manager) with contributions by Carlos Elbirt (consultant on institutional development), James Fox (consultant on social sector development), Manuel Lasaga (consultant on private sector development) and Adrian Kats (donor coordination). This evaluation benefited from comments of Laurie Efron and two peer reviewers: Jorge Garcia-Garcia (OEDCR) and Luca Barbone (PRMPR). Roziah Baba provided administrative support.



## Summary of CAE Ratings

Objectives	Outcome	Ratings
<p>Opportunity – to attain higher sustainable private sector led growth with more equitable distribution</p> <p>Enhance regulatory framework for key infrastructure sectors</p> <p>Strengthen the financial sector</p> <p>Improve physical infrastructure, increase the capacity of the public to manage it, and promote private sector participation wherever possible</p>	<p>Legal and regulatory framework strengthened; continuing political and social tensions over private participation in infrastructure (paras 3.3-3.5, Table 3.1)</p> <p>Legal and regulatory framework strengthened; banks remain weak; mismanagement of pension reform associated with large fiscal deficit (paras 3.7-3.9, Table 3.2)</p> <p>Modest increase in road infrastructure, with specific CAS objective not met; some improvement in road sector institutional performance (paras 3.11-3.12, Table 3.3)</p>	Moderately Unsatisfactory
<p>Equity – to raise the standards of living of the poor</p> <p>Increase social expenditures, especially for those groups currently excluded from the benefits of development</p> <p>Improve the efficiency and quality of social services, taking in to account different cultural conditions</p> <p>Enhance rural productivity of small farmers</p>	<p>Social expenditures increased and became more pro-poor (paras 3.18-3.19, Table 3.4)</p> <p>Efficiency and quality indicators show improvement in health and education (paras 3.21-3.23, Table 3.5)</p> <p>No improvement. Procurement fraud (paras 3.25-3.26, Table 3.6)</p>	Moderately Satisfactory
<p>Institutionality – to strengthen the institutional framework for better justice and a corruption-free administration</p> <p>Modernize the state and the legal and institutional framework for the private sector</p> <p>Implement judicial reforms</p> <p>Assure an integrated framework for municipal and departmental strengthening</p>	<p>Reforms instituted in three agencies in which implementation attempted, but little progress overall (paras 3.30-3.34, Table 3.7)</p> <p>Little or no improvement in functioning of judiciary (paras 3.36-3.37, Table 3.8)</p> <p>Integrated framework not established (para 3.39)</p>	Moderately Unsatisfactory
<b>Overall</b>		<b>Moderately Unsatisfactory</b>



## SUMMARY

This report evaluates the World Bank's assistance to Bolivia over the six-year period between July 1, 1998, and June 30, 2004 (i.e., Bank FYs 1999-04). The Bank's assistance to Bolivia between FY86 and FY98 was evaluated previously by OED. At the beginning of FY99, optimism was in the air. Many Bolivians and many donors thought that the cumulative effect of over 10 years of earlier reforms, and the then-new government's program to promote private sector development, broaden the benefits of growth, strengthen Bolivia's public sector institutions, and take Bolivia out of the international coca trade, would finally yield strong growth and poverty reduction results.

This did not happen. The period since mid-1998 turned out to have been one of the most difficult Bolivia has faced since the mid-1980s. By the end of the period evaluated here, Bolivia was in a deep political and social crisis. Growth rates had fallen as a result of crises in Brazil and Argentina, natural disasters, eradication of illegal coca production and social unrest. Public sector deficits ballooned and debt-sustainability ratios, after improving as a result of the HIPC initiative, deteriorated. Planned structural reforms were deferred or diluted. Poverty declined only modestly. Only in health and education did results meet expectations.

The Bank was one of Bolivia's three largest donors (in terms of disbursements) during this period. It was a major player – both in terms of finance and as a purveyor of development knowledge - in supporting high priority structural reform and institutional development aspects of the government's program and, after the onset of the crisis, in supporting the government's efforts to re-establish and maintain social, political and economic stability.

The overall development impact of the Bank's assistance during this period is rated as *Moderately Unsatisfactory*. Evaluation ratings of the Bank's Bolivia projects are in line with Bank-wide averages, and progress was made toward a number of the specific objectives of Bank support. This progress did not translate into satisfactory development outcomes, however, due to the effects of adverse factors – e.g., strong political and social opposition to major elements of its development program – that materialized during implementation. The Bank had identified most of these possible adverse developments as risks in its program documentation, but had discounted them heavily in its program and operational design decisions. The development impact of Bank assistance could have been improved had these risks been appraised more realistically and addressed through program and operational design.

Five lessons, many of which reinforce lessons that have been learned elsewhere but perhaps not fully internalized, emerge from this evaluation:

- *Unbiased, balanced assessments of risk, and re-assessment during implementation, improve the prospects for ex-post development effectiveness.* In Bolivia, overly-optimistic political and/or social assessments, overly-optimistic macroeconomic frameworks, and overly-optimistic assessments of the Bank's ability to implement CDF principles contributed to less than fully-satisfactory development outcomes of Bank assistance.
- *Indicators typically used by the Bank and other donors – including those intimately related to some aspects of the Millennium Development Goals (MDGs) - do not, and*

*probably cannot, fully capture aspects of development that are critical from political and social perspectives.* Typical indicators, such as indicators of health and education status, do not easily capture cultural values, perceptions and attitudes about development issues, and the consequent potential political and social reactions to them.

- *The capacity of instruments and processes such as the CDF/PRSP to build consensus and resolve political and social conflicts is limited when sharp divisions exist.* In Bolivia, present divisions have been too great to be bridged by the PRSP process.
- *Prolonged high levels of aid involve a risk that recipients' ability to implement hard budget constraints could be impaired.* Bolivia has, on occasion, made budgetary commitments beyond those agreed with the donors, that it could not meet out of its own resources, and that ultimately contributed to continuing needs for donor financing.
- *Donors can stimulate improvements in health and education in poor countries.* Notwithstanding the many things that have gone wrong over the last several years, committed Bolivians – backed by the donors and in particular the Bank – have achieved dramatic results in health and education.

Given the high degree of uncertainty in Bolivia today and the likelihood that this will persist for some time, the recommendations of this evaluation focus on the near-term, for the next Bolivia CAS:

- The Bank's strategy should have a short (12-24 month) time horizon, and should be based on a careful analysis of economic, social, and political risks, and consider the views of independent external political, social, and economic analysts.
- The Bank's strategy should aim at achieving sustainable fiscal balances at aid levels consistent with Bolivia's per capita income and policy performance, and at achieving rapid improvements in Bolivia's public sector financial management.
- The Bank's strategy should continue efforts initiated under the 2004 strategy to provide AAA support – as appropriate – on the critical social and political issues facing Bolivia such as its policies with regard to hydrocarbons development, political reform, and decentralization.
- The Bank lending program should be fully IDA funded, in-line with IDA performance criteria, until Bolivia's creditworthiness for IBRD lending is established firmly.
- The Bank should not encourage Bolivia to complete another PRSP before broadly acceptable (within Bolivia) legislation has been passed regarding hydrocarbons, regional autonomy, and the convocation of the constituent assembly.

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# 1. Introduction

## Scope of the Evaluation

1.1 This Country Assistance Evaluation (CAE) assesses the outcomes of the World Bank's assistance to Bolivia during the period July 1, 1998 through June 30, 2004.<sup>1</sup> It examines the relevance and realism of Bank objectives in the context of the development constraints facing Bolivia, the political environment for development and the capacity of the government during this period, and it assesses the sustainability and institutional development impacts of the Bank's assistance.

## Background

1.2 After focusing its economic policies during the mid to late 1980s and early 1990s on achieving and maintaining macroeconomic stability, Bolivia initiated an ambitious program of structural reforms in the mid-1990s. An innovative privatization program enacted in 1994 provided for the sale of 50 percent of the shares of government enterprises in exchange for investment in these companies.<sup>2</sup> The remaining 50 percent of the shares was vested in a new pension program. In the same year, the Law for Popular Participation created municipalities throughout the country, gave them authority and resources to invest in health, education and infrastructure development, and enabled local citizens to elect local officials. Shortly after, the Law for Decentralization restructured the relationship of Bolivia's department-level governments to the national government, shifting more power to municipalities, but maintaining central government control over departmental level governments.

1.3 An Education Reform law was also enacted in 1994, providing for bilingual and intercultural education, improved teacher training and compensation based on performance, merit hiring of school supervisors, and national testing of students and teachers and local school councils, among other measures. The constitution was amended to increase the number of legislators voted into office through a simple plurality system, to change the way the presidents were selected by Congress, to align the timing of the election of executives and legislators, and to lengthen the terms of office of presidents, legislators and mayors to five years. In 1996, a major pension reform, tied to the capitalization program, introduced private management of funds and individual contributory accounts. And, in 1997, under the newly-elected Banzer administration, a comprehensive initiative to eliminate the illegal production of cocaine in the country was undertaken.

1.4 Although the pace of reform ebbed and flowed since the start of reforms in the mid-1980s, a constant direction was maintained despite three changes in administration. This was at least in part an outcome of Bolivia's distinctive coalition politics. Under Bolivia's constitution, if no presidential candidate wins a majority of the popular ballot, the task of electing a president passes to the legislature. This has happened in every presidential election. However, no party

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<sup>1</sup> World Bank Fiscal Years 1999 through 2004. Both the 1998 and 2004 Country Assistance Strategies (CASs) were strategies for the World Bank Group, including IFC and MIGA. This evaluation deals only with the IDA and IBRD components of the Bank's assistance.

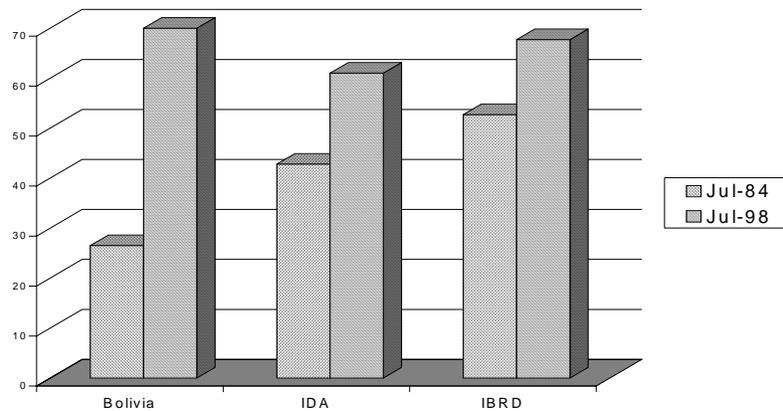
<sup>2</sup> This program is known in Bolivia and in the Bank as the "Capitalization Program", emphasizing its requirement that buyers invest in the development of the companies they purchased.

has won a majority in the congress either, so in practice, the election of a president depends on a subset of parties in the legislature coming to an agreement on a candidate. Bargaining and agreement on a government program, positions in government and claims on public resources have been the basis for formation of these governing coalitions. This has come to be known as Bolivia's system of "pacted democracy", and the division of spoils under this system as the "political quota".

### Development Outcomes Prior to 1998

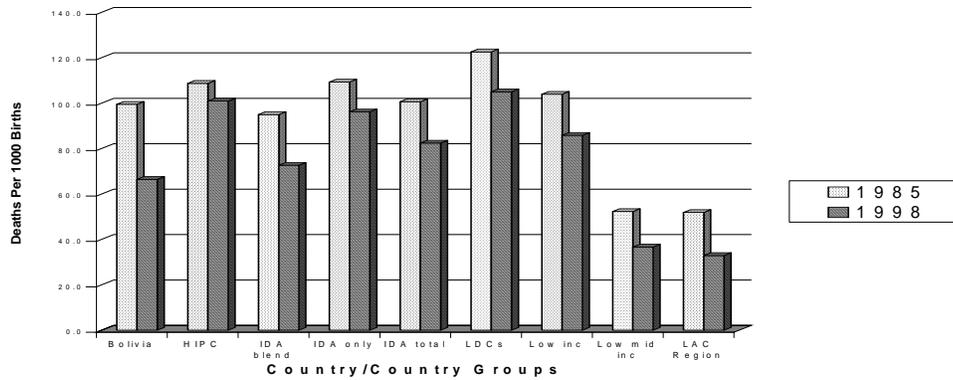
1.5 The cumulative impact of the political and economic developments in Bolivia from the mid-1980s to the late 1990s is reflected in dramatic changes in external perceptions concerning Bolivia's policies and institutions, and dramatic changes in some dimensions of development performance. The International Country Risk Guide's (ICRG) composite rating<sup>3</sup> of Bolivia's economic and political risk (Figure 1.1a) and data on Bolivia's infant mortality (Figure 1.1b) reflect substantial improvements. Poverty remained very high, however. Almost 70 percent of Bolivia's populace was poor in 1997, and the poverty gap<sup>4</sup> was 32 percent. Income inequality, notwithstanding the massive redistribution of wealth and expansion of government social services in the aftermath of the 1952 revolution, was still among the highest in Latin America.

**Figure 1.1a: Bolivia's ICRG Composite Risk Ratings Improved Relative to Other IDA and IBRD Borrowers**



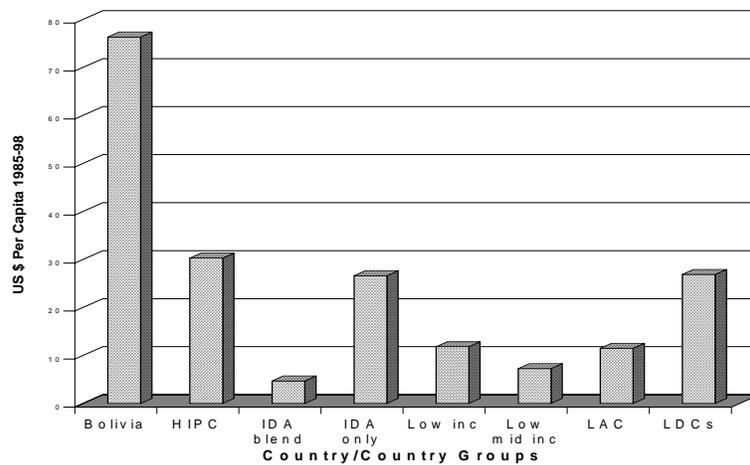
<sup>3</sup> The International Country Risk Guide risk rating system is a proprietary service that rates the risks faced by investors in a country. It is used primarily by business as a predictive tool to analyze investment options. The system assigns a numerical value to a set of political, economic and financial risk components, according to a preset weighting scale.

<sup>4</sup> The "poverty gap" is the difference between the mean income of those below the poverty line and the poverty line, expressed as a percentage of the poverty line.

**Figure 1.1b: Bolivia's Infant Mortality Declined Significantly**

### Development Assistance Prior to 1998

1.6 The international community has been strongly supportive of the changes in Bolivia since the mid-1980s. During the period leading up to the 1998 CAS, assistance to Bolivia averaged about US\$75/year/capita over the period 1985-98, as shown in Figure 1.2. This was equivalent to about 10 percent of Gross National Income (GNI), and over 50 percent of government expenditures over this period. Bank assistance (commitments basis) during this period averaged about US\$14/year/capita.

**Figure 1.2: Bolivia aid per capita in relation to other country groups**

<b>Box 1.1: Recommendations of the Previous CAE</b>	
Judicial Reform	A more rigorous approach is justified to ensure that the Judiciary Council, that has just recently been established as the regulatory body to govern judicial reform, becomes fully operational. This will require concerted technical assistance to the new body, especially in regards to its reform of the entire judicial administration, the introduction of a judicial career, and the creation of mechanisms to monitor judicial performance and that of administrative support staff. Benchmarks tracking these accomplishments should also be added as conditions for future disbursements.
Civil Service Reform	Public sector institution-building should be a cornerstone of the country strategy. It should be incumbent upon all task managers to demonstrate specifically how their project design contributes to public sector institution-building. The Bank should design clearly defined conditions which would warrant payment of civil service salaries or any form of salary supplement. These conditions would need to be discussed with other donors to ensure a joint framework for support.
Financial Sector Reform	<ol style="list-style-type: none"> <li>1. The soundness of the banking system should be enhanced by (a) increasing capital requirements significantly, or (b) requiring much higher mandatory reserves on demand and short-term deposits.</li> <li>2. The regulatory framework of all protected deposit intermediaries has to be strengthened and incentives strengthened for bank managers not to take excessive risks.</li> <li>3. The prudential regulation of pension fund management companies and all protected depository intermediaries should be coordinated.</li> <li>4. A legal framework, based on a set of consistent and enforceable principles, but differentiated by market based on differing rationales for government regulation, for regulation of non-bank financial markets should be developed.</li> </ol>
Institutional Integrity	Corruption (and by reference institutional weakness) should be explicitly taken into account in a country risk analysis, lending decision, and portfolio supervision if it affects project or country performance and the government's commitment to deal with it is in question.
Environment	The Bank and the Government develop an agenda that consists of defining procedures for assigning environmental costs to projects and productive ventures, enforcing laws that are now on the books, linking the green with the brown agenda, determining alternative ways to make profit from the environment (such as eco-tourism) and assessing the appropriateness of Bank instruments that could be applicable to environmental issues. The most immediate item on Bolivia's environmental agenda, however, is a cogent, unbiased environmental risk assessment of the Bolivian-Brazil pipeline that is to cut across the eastern lowlands from Santa Cruz to Sao Paolo.
The Altiplano	The Bank must step up research that supports economic development in the Altiplano and other rural areas.

*Source:* Operations Evaluation Department, 2000c.

1.7 OED's previous CAE<sup>5</sup> found that the Bank had contributed to many of the positive developments registered in Bolivia since the mid-1980s. It noted that the Bank was instrumental in mobilizing support from the donor community and helping to stabilize the economy after the crisis. It also found, however, in view of the modest growth and limited poverty reduction, that Bank resources might have been used more effectively by linking its support to progress in achieving structural reforms supporting private sector development. It recommended (see Box 1.1) that the Bank should (a) give higher priority to promoting private sector development by developing the financial sector and helping the government accelerate reforms of the judicial system and civil service; (b) assume greater leadership in helping the government to Bolivia combat corruption; (c) develop a strategy for sustainable natural resource management; and (d) target growth and poverty reduction to the Altiplano and other rural areas by following the generic recommendations of the Bank's ESSD Network report: *Rural Development: From Vision to Action*.

### **The Outlook in Mid-1998**

1.8 Concerns about Bolivia's previous growth and poverty reduction performance notwithstanding, expectations - the Bank's and other donors' - were high entering the period

<sup>5</sup> Operations Evaluation Department, 2000.

examined in this CAE. The Bank's FY99-03 strategy was grounded in an assessment of economic, social and political prospects that foresaw considerable scope for development progress. Base Case projections envisaged low stable inflation, high (by Latin America and the Caribbean region (LCR) and Bolivian historical standards) growth—5 percent plus per annum, declining fiscal deficits, declining debt, increasing investment, and declining income and non-income poverty. While the country assistance strategy (CAS) noted a number of risks,<sup>6</sup> the Base Case scenario assumed that uncertain political, social, and economic events would unfold in a way that was favorable to Bolivia's development. Overall, the CAS appraised Bolivia's development prospects as follows:<sup>7</sup>

We believe that the initial conditions under which we will be operating in the coming years in Bolivia are more conducive to achieve results on the ground than in the past. The structural reforms are underway and have the full commitment of the administration.

1.9 There were, to be sure, mildly cautionary notes sounded at the time. The Banzer government elected in 1997 was based on a coalition of five political parties that had widely different policy views, and several of them were generally suspicious of or hostile to many of the structural policies of the previous government. The Bank noted in the CAS that the Banzer government coalition was diverse and that its duration was uncertain<sup>8</sup> and that collapse of the coalition would pose a risk to the strategy.<sup>9</sup> USAID, in March 1998, although also generally hopeful, noted<sup>10</sup>

...the extent and nature of GOB commitment to continued reforms in the areas of popular participation, environment and poverty alleviation remain uncertain.

...This lack of clarity points to the difficulties faced by an ideologically disparate, multi-party coalition, in defining concrete responses to development challenges.

1.10 The Economist Intelligence Unit (EIU) cautioned, in spring of 1998, that "The heterogeneous government coalition is showing signs of strain...". EIU further noted, however, that the country could be expected to follow orthodox fiscal and monetary policies and "economic liberalization".<sup>11</sup> The EIU, like the Bank, foresaw 5 percent growth for 1999.

1.11 Optimism, perhaps with some modest doses of caution, was thus very much in the air. Faster growth and some poverty reduction, in particular, seemed well within Bolivia's grasp, by

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<sup>6</sup> The 1998 CAS identified five risks: (i) a larger than anticipated budget deficit which raised concerns about macro stability in the short term; (ii) lack of success in improving Bolivia's high cost business environment; (iii) deep seated cultural barriers to include the excluded could prove very difficult to overcome; (iv) social unrest and the potential for the collapse of the political coalition could complicate the implementation of the CAS; and (v) vulnerability to external shocks, particularly to the current account.

<sup>7</sup> World Bank 1998a, paragraph 47.

<sup>8</sup> World Bank 1998a, paragraph 12. The CAS did not express concerns about the ability of the coalition, if it survived, to deliver policy reform.

<sup>9</sup> World Bank 1998a, paragraph vi.

<sup>10</sup> USAID 1998.

<sup>11</sup> Economist Intelligence Unit, Country Risk Service, Bolivia, 2<sup>nd</sup> Quarter 1998.

adding gas exports to the modest growth momentum of the mid-1990s. It looked, to many—perhaps most-observers, as though the country was poised for major development advances.

### Developments since July 1998

1.12 In the event, the period since July 1998 has turned out to be one of the most difficult Bolivia has faced since the crises of the early - to mid-1980s, as is suggested by the data in Table 1.1. Growth averaged 2.4 percent as a result of a number of unfavorable developments, and poverty stagnated at high levels. On the external front, crises in Brazil and Argentina hit the Bolivian economy hard. Heavy damage associated with La Niña in 1999 and El Niño in 2001 disrupted production and damaged productive assets. On the internal front, two otherwise desirable government policies - eradication of illegal coca production and a crack down on smuggling - compounded the impact of negative external shocks on the economy. These shocks coincided with the decline of investment demand as the investments associated with the capitalization program were completed.

**Table 1.1: Post-1998 Economic Outcomes<sup>12</sup>**

Indicator	Met/Up?	Baseline		CAS Goal/ Projection	Outcome	
		Period	Value		Period	Value
Macroeconomic Indicators – CAS Projections						
GDP growth (% pa)	No	1993-97	4.7	5.2	1998-02	2.4
Inflation – GDP deflator (% pa)	Yes	1993-97	8.7	5.8	1998-02	3.6
Public Sector Balance (% GDP)	No	1993-97	-5.8	-3.0	1998-02	-5.5
Gross Domestic Investment (% GDP)	No	1993-97	17.8	19.2	1998-02	15.4
Gross National Saving (% GDP)	No	1993-97	10.8	13.6	1998-02	11.4
Public Sector Debt/GDP (NPV % of GDP)*	No	2001	37	NA	2004	54

Source: World Development Indicators; \* IMF 2004

1.13 A related and recently dominant internal factor has been mounting social unrest and political paralysis. Several times since 2000, the country or large parts thereof have been brought periodically to a standstill by social unrest, sometimes for weeks at a time, and sometimes violent and resulting in loss of life.<sup>13</sup> In October 2003, increasingly violent anti-government protests culminated in a large number of deaths and injuries, and President Sanchez de Lozada was forced to resign. Although relative calm was established and has been maintained during this period by the new President, Carlos Mesa Gisbert, Bolivia's future is

<sup>12</sup> The tables in this report follow a common format. The column headed “Met/Up?” indicates whether the indicator suggests that progress has been made against the Bank’s objectives. The column headed “Baseline” indicates baseline value for each indicator. The column headed CAS Goal/Projection indicates whether a specific target or projection was made in the CAS for the indicator. Indicators for which no specific goal or projection was made record a value of NA in this column. The column headed “Outcome” reports outcome values and period for each indicator.

<sup>13</sup> Violent protest had occasionally welled-up earlier in response to previous reforms. Presidents Paz Estensoro (in 1985 and 1987), Paz Zamora (in 1989), and Sanchez de Lozada (in 1995) imposed martial law and called upon the armed forces to quell violent protests to unpopular policy measures in previous years. But the frequency and extent of disruption has increased since President Banzer imposed martial law in 2000. These have disrupted the economy and normal government administration, and increasingly paralyzed the policy-making process. Their resolution has also frequently involved negotiated settlements that have had budgetary implications. In January 2003, prior to the violent confrontation in February over tax increases and expenditure cuts to be taken in conjunction with an arrangement with the IMF, an “army” of retirees (an estimated 10,000 participants) laid siege to the capital, and left with increased pensions, thereafter indexed to the US dollar.

uncertain as its people grapple with fundamental questions concerning their political and economic systems.

1.14 Less than anticipated revenues, higher than expected costs of pension reform—in part as a result of political pressures to make pensions more generous—and burgeoning demands for other expenditures kept the budget under pressure. The fiscal deficit increased from 4.1 percent of GDP in 1998 to almost 9 percent in 2002, and about 8 percent in 2003. As a result, Bolivia's debt to GDP ratios have increased significantly after the enhanced HIPC initiative completion point in 2001 to over 76 percent of GDP projected for 2004, or 54 percent of GDP in net present value (NPV) terms.

### **Overview of this Report**

1.15 This report evaluates the Bank's assistance to Bolivia during this increasingly difficult period. Chapter 2 outlines the assistance strategies pursued by the Bank. In Chapter 3, the report examines in more detail outcomes with regard to the objectives of the Bank's country assistance strategy. Chapter 4 then looks at the factors that contributed to these outcomes. Chapter 5 draws some lessons from the Bank's experience in Bolivia and offers some recommendations with regard to the Bank's future support of Bolivia, some of which may also be of broader potential applicability.

## **2. The Bank's Assistance Program, FY99-04**

2.1 This chapter examines the Bank's assistance to Bolivia over the six-year period beginning July 1, 1998, and ending June 30, 2004. The Bank's program over this period can be divided into two phases, FY99-03,<sup>14</sup> and FY04, the first year of a planned two-year (FY04-05) program. During the earlier period, the Bank's program supported the Banzer Government's National Action Plan,<sup>15</sup> which envisaged accelerated poverty reduction<sup>16</sup> through a combination of initiatives to promote faster sustainable growth (known as the "Opportunity pillar" of the program), investment in human capital and in boosting productivity in poor regions (Equity), steps to promote the development of public sector institutions (Institutionality), and the eradication of illegal coca production (Dignity). During the latter period, the Bank supported the Mesa Government's program for dealing with the social, economic and political crisis that erupted in 2003.

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<sup>14</sup> The original CAS document discussed in 1998 was for the period FY99-02. This period was later extended through FY03 in the CAS Progress Report of May 10, 2001.

<sup>15</sup> Between FY02-03, the Bank's program was formally linked to Bolivia's poverty reduction strategy, which was similar to the National Action Plan.

<sup>16</sup> There was some uncertainty among donors concerning the extent to which the National Action Plan was committed to poverty reduction. USAID stated as follows in its programming document produced at about the time of the 1998 CAS. "However, the extent and nature of GOB commitment to...poverty alleviation remain uncertain." USAID Bolivia 1998.

## Objectives of Bank Assistance

### *Objectives of Bank FY99-03 Assistance*

2.2 The 1998 CAS was notable for its specificity with regard to the criteria on which the Bank's program would be assessed and for its efforts to develop a monitoring and evaluation framework.<sup>17</sup> The core objectives established in the CAS were a reduction in the Poverty Headcount Ratio (from 67 percent of the population in 1998-99 to 59 percent in 2002), and the Poverty Gap Ratio (from 32 percent to 26 percent).<sup>18</sup> The CAS also targeted improvement in three maternal and child health indicators: reductions in Infant Mortality (from 69 to 54 deaths per thousand live births); in Maternal Mortality from 390 to 290 (deaths per hundred thousand births); and in Child Nutrition (percentage of children with low weights for their age) from 9.5 to 6.0 percent of children.

2.3 The specific objectives of the Bank's "slice" of the government's program were worked out jointly with the government based on an explicit set of criteria, and focused on priorities in the Opportunity, Equity, and Institutionality pillars.<sup>19</sup> Within each pillar, the Bank and the government jointly identified and prioritized specific objectives for possible Bank support and agreed that Bank support would be limited to the top three priority objectives in each pillar, shown in Table 2.1. The CAS matrix also detailed a number of indicators for determining whether objectives were met.

**Table 2.1: Objectives of Bank Support, FY99-03**

Pillar Objective	Bank Support Objective
Opportunity: To attain higher sustainable private sector led growth with more equitable distribution	(i) Enhance the regulatory framework for key infrastructure sectors (ii) Strengthen the financial sector (iii) Improve physical infrastructure, increase the capacity of the public to manage it, and promote private sector participation wherever possible.
Equity: To raise the standards of living of the poor	(i) Increase social expenditures, especially for those groups currently excluded from the benefits of development (ii) Improve the efficiency and quality of social services, taking into account different cultural conditions (iii) Enhance rural productivity of small farmers
Institutionality: To strengthen the institutional framework for better justice and a corruption-free administration	(i) Modernize the state and the legal and institutional framework for the private sector (ii) Implement judicial reforms (iii) Assure an integrated framework for municipal and departmental strengthening

Source: World Bank 1998a.

<sup>17</sup> World Bank 1998a, paragraph 29.

<sup>18</sup> Subsequent follow up with the Government and other donors yielded 17 indicators – encompassing all aspects of the government's program to be monitored. These indicators were monitored and reported in the 2001 CAS Progress Report. They were superseded subsequently by a set of indicators developed in Bolivia's 2001 Poverty Reduction Strategy Paper.

<sup>19</sup> The Bank opted out of support for the Dignity of the government's program pillar (the objective of which was to withdraw Bolivia from the international coca market) on the grounds that it did not have a comparative advantage in this area.

2.4 The 2001 CAS Progress Report did not indicate any fundamental change in the Bank's assessment of the environment for Bank support<sup>20</sup> or propose any change in CAS basic objectives. It did, however, indicate some adjustment of the Bank's operational program in support of those objectives. The most significant changes were substitution of a series of programmatic adjustment credits for previously planned municipal development investment credits to support decentralization, the postponement of planned follow up operations in institutional development and judicial reform - reflecting slower than anticipated progress in these areas, the dropping of two highway projects, and slower than planned entry into the secondary education reform area.

### ***Objectives of Bank FY04-05 Assistance***

2.5 Because of the substantial uncertainties and risks Bolivia faced, the 2004 CAS drastically shortened the Bank's time horizon (focusing on the 18 month period between December 2003 and July 2005, less than the full term of the Mesa Government) and realigned the Bank's objectives with the Mesa Government's near term political and economic objectives. On the political front, the government sought to resolve central issues concerning the ownership and distribution of benefits of Bolivia's bounteous hydrocarbon resources, and Bolivia's future constitutional structure. On the economic front, the government sought to maintain macro-stability, intensify implementation in poor areas, and re-invigorate the institutional reform agenda. The Bank's specific objectives in this context are shown in Table 2.2.

**Table 2.2: Objectives of Bank Support, FY04-05**

<b>Government Objectives</b>	<b>Bank Objectives</b>
To revise the laws governing the extraction of Bolivia's oil and gas resources	(a) to ensure that Bolivia's tax revenue compares favorably with that received by other countries (b) to ensure that the government and gas companies maintain close working relationships
To submit the decision to export natural gas to a public referendum	(a) to have the authorization of the electorate to export gas (b) to ensure that future gas contracts and proposed use of natural gas proceeds would benefit the poor
To convene a Constitutional Assembly to modify the existing Constitution	(a) to strengthen unity within the country (b) to strengthen institutions without undermining Bolivia's economic future
To restore macroeconomic stability	(a) to agree on a fiscal deficit path that is viable economically, politically, and socially (b) to ensure that the public accepts this path (c) to ensure that the donor community restructures its assistance
To reorient public expenditure to high-visibility programs that respond to underlying factors that led to social conflict, especially in areas with high potential for social unrest	(a) to redirect portions of existing projects to supporting projects in El Alto and La Paz (b) to keep the implementation of World Bank project's going (c) to ensure that implementation is "satisfactory for all"
To re-launch the institutional reform program and anticorruption efforts	Second Institutional Reform Project is "successfully introduced."

Source: World Bank 2004c.

<sup>20</sup> This assessment is summarized in Chapter 1. See paragraphs 1.9 - 1.11.

## Bank Products and Services

### *Planned Level and Composition of the Lending Program*

2.6 The 1998 CAS envisioned a Base Case lending program of about US\$325 million over the period FY99-02, or about US\$80 million per FY. In a low case, lending was to fall to US\$200 million; in a High Case, it was expected to range up to US\$450 million – or about US\$110 million per year. These cases were to be linked to performance in three areas: (i) policy - as defined by the non-financial public sector deficit in the macroeconomic scenarios and achievement of targets underlying IMF arrangements; (ii) progress on the measures to attain core poverty and social indicators - as defined by the proposed CAS core benchmarks;<sup>21</sup> and (iii) project implementation-as defined by portfolio monitoring indicators. There was no indication, however, as to precisely what combinations of specific developments with regard to these criteria would trigger a move between cases.

2.7 The CAS proposed that Bolivia's IDA eligibility be maintained during the CAS period, to phase out in favor of IBRD access by the end of FY02. It noted that such exceptional treatment (i.e., IDA eligibility after crossing the GNP eligibility threshold) would be contingent upon its continued strong policy performance, the sharp poverty-reduction focus of the lending program, and the promotion of private sector development activities that would facilitate the transition from concessional funding to reliance on private capital.

2.8 The Base Case lending program was front loaded, with US\$170 million planned to be committed in the FY99. Only one adjustment operation (Regulatory Reform and Privatization Adjustment Credit) was foreseen, with a planned commitment level of US\$40 million. Seven Adaptable Program Lendings (APLs) and one Learning and Innovation Loan (LIL) were planned. Of the planned Base Case lending volume in the 1998 document, roughly 40 percent was devoted to operations primarily geared to Opportunity, 32 percent to Equity, and 28 percent to Institutionalality.

2.9 With the extension of the strategy for an additional year in the 2001 CAS Progress Report, lending of US\$130 million was planned in FY02, and US\$100 million in FY03 – annual rates equivalent to 1998 CAS High Case annual average rates. Low case lending would fall to US\$25 million in FY02, and US\$40 million in FY03, substantially lower than the averages foreseen in the 1998 CAS. Trigger criteria were similar but not identical to those in the 1998 CAS: (a) a satisfactory level of macroeconomic performance;<sup>22</sup> (b) satisfactory progress on the implementation of the PRSP as demonstrated by the yearly assessments to be conducted jointly by the Bank and Fund staff;<sup>23</sup> and (c) satisfactory portfolio performance. In view of lower growth than foreseen in the 1998 CAS and a creditworthiness analysis that concluded that Bolivia was not ready to move to full IBRD borrowing, the progress report noted that Bolivia

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<sup>21</sup> These are summarized in paragraph 2.2.

<sup>22</sup> The 2001 formulation of the macroeconomic performance objective deletes (a) a specific reference to the non-financial public sector deficit in the macroeconomic scenarios; and (b) reference to IMF program targets. These omissions are significant, in that (a) Base Case macroeconomic deficit scenarios were exceeded by a fairly substantial margin; and (b) access to Fund resources was subsequently interrupted.

<sup>23</sup> The 1998 CAS took the core CAS benchmarks of that document as the reference point.

would move to a blend status for FY02-03, with some likelihood of an extension of a gradually hardening blend status into FY04 and possibly FY05.

2.10 The 2004 CAS also outlined three lending programs, a Base Case program of US\$160 million, of which US\$75 million was to be in adjustment lending. The Base Case program was to be back loaded, with US\$64 million in FY04 and US\$96 million in 2005, although adjustment lending was front loaded, with US\$50 million in FY04. The CAS further outlined a high case of US\$300 million, 50 percent of which would be adjustment, and a low case of US\$45 million, with no adjustment lending. As foreshadowed in the 2001 progress report, the 2004 CAS proposed an extension of IDA eligibility through FY05, noting that there is a fairly substantial likelihood that per capita GNI will fall below the IDA cutoff threshold during much of this period.<sup>24</sup> The CAS also provided for increasing access to IBRD funding, with US\$15 million of IBRD lending planned for FY04, and US\$60 million in the Base Case for FY05.

2.11 Triggers were defined in terms of five types of criteria: (i) Macroeconomic sustainability; (ii) implementation of a poverty reduction strategy; (iii) bank and corporate restructuring; (iv) institutional reform; and (v) implementation of the Bank portfolio. The CAS indicates in general qualitative terms what kinds of performance in each dimension would be associated with the low and high cases.

### ***Implementation of the Lending Program***

2.12 Overall, there were significant differences between the planned and the executed assistance program for FY99-03. Only five out of the fifteen proposed projects were actually approved (four of them during the first year of CAS implementation). A number of projects were either dropped or delayed, reflecting lack of government commitment and/or implementation constraints (secondary education, rural development, several highway projects, judicial reform and institutional reform APL). New projects embracing alternative approaches to institutional issues (Programmatic Structural Adjustment Credit (PSAC) and Road Rehabilitation) or responding to economic crisis (Social Safety Net Structural Adjustment Credit (SAC)) were developed.

2.13 FY99-03 lending volume was between Base and High Case levels - about US\$455 million - with heavier than planned use of adjustment instruments (with commitments of adjustment lending of about US\$42 million in FY99, US\$60 million in FY01, and US\$60 million in FY03). Macroeconomic triggers do not seem to have played a role in the amount of the lending program. Any concerns about Bolivia's macroeconomic performance may have been offset by indications of strong sectoral performance - particularly in health and education - and initial progress in the institutional development area of the program.

2.14 Lending during FY04 was consistent with the Base Case strategy.<sup>25</sup> All of the FY04 operations envisaged in the CAS were approved by the Board in that year.

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<sup>24</sup> The CAS proposed that blend country status be maintained beyond the end of the CAS, through the IDA 14 period.

<sup>25</sup> A first programmatic social sector credit was increased by US\$5 million.

**Table 2.3: Actual Versus Planned Lending, FY99-04**

	CAS Proposal/New	Proposed	US\$ million	Actual	US\$ million	Objective		
						O	E	I
FY99	Institutional Reform APL	CAS	40		32			x
	Reg. Reform and Pnv. SAC	CAS	40		40	x		x
	Abapo-Camiri Highway	CAS	70		88	x		
	Health Reform APL	CAS	20		25		x	
FY00	Municipal Develop. II APL	CAS	20	Replaced by PSAC FY01				x
	Support to Judicial System	CAS	20	Dropped				x
	SJ-Pto. Suarez Highway	CAS	65	Dropped		x		
	Indigenous People's LIL	CAS	5	Delayed to FY01	5			x
	Hydrocarbon LIL	New	5		5	x		
FY01	Health Sector Reform II APL	CAS	20		35		x	
	Second. & Higher Ed Reform	CAS	20	Dropped			x	
	Yacuno-San Borja Highway	CAS	15	Dropped		x		
	Private Provision of Infrastruc.	CAS	40	Dropped		x		
	Decentralization PSAC	New	60		60			x
FY02	Participat. Rural Invest. APL	CAS	30	Dropped				x
	Municipal Develop. III APL	CAS	20	Replaced by PSAC II FY03				x
	Institutional Reform APL	CAS	20	Delayed indefinitely				x
	Land Administration-Supplement	New	6		6	x		
	Road Rehabilitation & Maintenance	New	77		77	x		
FY03	Poverty Reduction SAC I	CAS	50	Delayed				x
	Institutional Reform APL II	CAS	25	Delayed indefinitely				x
	Rural Investment	CAS	25	Dropped			x	
	Decentralization PSAC II	New	25		25			x
	Social Safety Net SAC	New	35		35		x	
	Decent. Infrast. Rural Transf.	New	20		20	x	x	
FY04	Emergency Economic Recovery Credit (IDA)	CAS	14		14			
	First Programmatic Bank and Corporate Sector Restructuring Project (IDA/IBRD)	CAs	30		30			
	Social Sector Programmatic	CAS	20		25			

Notes: New projects are in support of pillars, indicated in the "Objective" column of the Table: (O) opportunity, (E) equity, (I) institutionality

Source: CAS 1999-2004; CAS Progress Report of May 2001 for FY03, Controllers Department on actual loans. High case scenario for 1999-2002.

### ***Non Lending Services***

2.15 The FY99-03 and FY04-05 strategies planned delivery of 16 formal ESW tasks by the end of FY04. Of sixteen planned AAA, four tasks were planned for Opportunity, seven for Equity, and three for Institutionality, and two for multiple objectives. Of the planned tasks, seven were related to core AAA requirements.

2.16 The actual formal AAA program fell short, with only 10 formal reports completed during the period. A public-expenditure review was completed in FY99, and another in FY04. Ten-year progress assessments in education and health were completed in FY03 and FY04. A poverty diagnostic and a major study of nutrition in Bolivia were completed in FY02. All except the two ten-year assessments were included in the CAS. One planned study, of secondary and higher education, was not completed. This would have been preparatory to the lending operation in this area which was dropped due to lags in implementation of the primary education projects.

**Quality of Bank Products and Services**

2.17 The quality of Bank lending products and services over the period examined here was slightly above average in relation to both Bank-wide performance and slightly below regional averages.<sup>26</sup> Of the 22

evaluated exits, 17 or 77 percent are rated as Satisfactory as compared to a Bank-wide average for this period of 75 percent, and a LCR region average of 78 percent. Bolivia is below Bank and regional averages for sustainability and between Bank and regional averages for institutional development impact. Comparative evaluation ratings are shown in Table 2.4.<sup>27</sup>

2.18 QAG has evaluated Quality at Entry of three operations entering the portfolio since the beginning of FY99. Of these, two were rated *Satisfactory*, and one was rated *Marginal*.

2.19 Portfolio implementation between entry and closing has been a recurring problem. At the beginning of the FY99-03 CAS period, there was a sharp deterioration in the quality of the portfolio. As of end-FY01, Bolivia had 35 percent of its commitments at risk (compared to 7 percent as of end-FY99) and had 24 percent of its projects at risk. A portfolio improvement action plan was prepared and implemented, turning the portfolio around within a year. More recently, implementation has again become a problem – linked mainly to Bolivia’s inability to meet the counterpart funding requirements of the country’s portfolio of projects. At the end of 2004, 33 percent of the projects, accounting for 13 percent of the Bank’s portfolio was at risk. The Bank, in July 2004, adjusted its financing parameters for Bolivia to substantially reduce counterpart requirements of the Bank portfolio.

2.20 A review of reports indicates that Bank AAA was generally of high quality. With few exceptions, they contain careful analysis of the available facts, logical consistency, economy, and linkage between evidence and conclusions. The major studies show considerable involvement of Bolivian professionals.<sup>28</sup> Tasks seem generally to have been sequenced to help prepare for subsequent lending operations, or to address pending policy issues. However, AAA appears to have lagged in areas relating to constraints on private sector development, and there have been complaints by some other donor agencies about the slowness of completion of the 2004 public expenditure review, carried out jointly by the Bank and the IDB. Other donors also indicate that Bank reports are widely available and used in the donor community. Government policymakers are also aware of findings of such studies. Dissemination to the broader Bolivian community, nonetheless, appears to be a problem as some non-government professionals interviewed professed lack of awareness of Bank and/or access to studies of potential professional interest to them.

	Outcome % Sat	Sustainability % Likely	Institutional Development % Substantial
	Number	Number	Number
Bolivia	77	61	45
LCR Region	78	76	54
Bank-wide	75	70	48

*Source: Business Warehouse Table 4.a.5, April 6, 2005.*

<sup>26</sup> Table 2.4 include preliminary evaluation results of four projects currently undergoing evaluation.

<sup>27</sup> Detailed ratings for individual projects are reported in Annex A, Table 3a.

<sup>28</sup>For example, the 10-year education study was written by two Bolivians, while other major studies (e.g., on health, poverty, and public expenditures) show evidence of substantial involvement by Bolivians.

## Partnerships and Donor Coordination

2.21 Developing partnerships and improving coordination among donors were prominent features of both the 1998 and 2004 CASs. The 1998 CAS was developed with a fair degree of participation of other donors, as reflected for example in agreements reached on indicators to be used to monitor the progress in implementing the government's program, to coordinate programs along the lines of the pillars of the government's 1997 National Plan in a regular, government-led consultative process, and to pursue simplification and harmonization.

2.22 Early in the CAS period, the Bolivia program became a pilot for the Bank's new (in 1999) Comprehensive Development Framework (CDF) initiative.<sup>29</sup> In addition to aligning its 1998 CAS program with the government's program, in 1999 the Bank reorganized its country team along the lines of the three pillars supported by the Bank, and appointed and stationed experienced Bank HQ staff in La Paz as "pillar leaders". Core services were also decentralized with assignment of HQ staff procurement and financial management professionals, who joined the Country Director in the country office in La Paz. In parallel with this staff decentralization, the country team also sought considerable decentralization of decision-making authority with regard to lending and project implementation to improve the effectiveness and responsiveness of the Bank's support.

2.23 By late 2000, however, a number of factors led many of these initiatives to be reversed. The Bank found it difficult, for example, to have one country office organized along different lines from others and to manage a country program structure that did not map into the LCR matrix structure. Severe budget pressure in the Bank's LCR also contributed. The government remained organized along traditional ministerial lines, rather than "pillarizing", which also created confusion in the implementation of the Bank's strategy. Finally, many of the proposals to empower the country team that would have required variances or waivers of Bank policies met with insurmountable resistance, including from the Board. The Bank concluded that many elements of its attempt to decentralize were unworkable, and relocated the CD and HQ staff to the regional office in Lima.

### **Box 2.1: Bolivia's experience with the CDF and PRSP Processes**

A case study undertaken in the context of OED's multi-partner evaluation of the CDF looked closely at the application of CDF principles in Bolivia. It noted that the application of the CDF in Bolivia had tended to become "depoliticized", dealing primarily with technocratic areas and constructing "protective barriers against the political system." In consequence, it found that the relation between the government's program, as reflected in its PRSP, and in actual short-term political decisions was not very strong, and the PRSP did not enjoy wide public recognition. It concluded, in particular, that "The acute social and political conflicts the country is experiencing seem to define a political agenda that has eclipsed the PRSP", and that two dialogues – one official under the auspices of the PRSP process and the other in the streets expressed in social conflicts – were underway.

The case study report concluded: "These two dialogues have different agendas and priorities, and the great challenge is to build a bridge between them."

*Source:* OED 2003b.

<sup>29</sup> Bolivia was viewed as an ideal platform for testing CDF principles because the 1997 National Action Plan and New Relationship Framework of the government, on which the 1998 CAS program was based, presaged many of the principles of the CDF.

2.24 Building on the 1997 experience of the First National Dialogue and the resulting National Action Plan, Bolivia was also one of the first countries to complete the PRSP process. In 2000, the government undertook a Second National Dialogue, culminating in a PRSP in 2001, which was instrumental in helping Bolivia obtain over US\$1.3 billion of HIPC debt relief, and which developed a HIPC proceeds allocation formula incorporating an explicit poverty criterion. Notwithstanding this process and its accomplishments, the strength and continuity of support in Bolivia for the resulting 2001 PRSP program were limited. Several civil groups believed that the program didn't take into account in an appropriate way a number of the concerns and positions taken during the consultation. The private sector felt virtually excluded from the process, and thought that the PRSP focused excessively on social sector issues, to the neglect and detriment of private sector development.

2.25 The successor (2002) Sanchez de Lozada government did not embrace the program, which it viewed as the program of the predecessor government. Initially disinterested in the PRSP, it eventually undertook to revise the 2001 PRSP, but was deterred and eventually overwhelmed by the mounting crisis. The Mesa government took up the task of revising the PRSP and was expected to present a revised PRSP at a Consultative Group meeting in 2005.

### **3. Progress in Achieving the Bank's Major Assistance Objectives**

3.1 The overarching goal of Bank assistance, poverty reduction, was not attained. Poverty - as reflected in the headcount ratio - declined from 67 to 64 percent, higher than the CAS goal of 59 percent, and the Poverty Gap declined from 32 to 31 percent, higher than the CAS goal of 26 percent. This chapter examines outcomes with regard to the specific development objectives of the Bank's program. It examines both indicators identified in the 1998 and 2004 CASs and supporting Bank documentation, as well as relevant indicators of development performance.

#### **Opportunity Objectives**

##### ***Regulatory Reform Objectives***

3.2 The Bank's basic strategy in this area was to help the Sectoral Regulatory Agency (SIRESE) to establish its independence, competence and consistency as a regulator. Although not flagged in the previous CAE as an area for Bank support, Bank objectives in this area were a logical outgrowth for earlier support to the government's "capitalization program." To accomplish this, the Bank supported strengthening of the legislative framework for regulation, issuance of implementing regulations, and support to strengthen SIRESE's internal administrative systems and processes.<sup>30</sup>

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<sup>30</sup> Lending support was provided through the Regulatory Reform and Capitalization TA Credit (1995), Capitalization Program Adjustment Credit (1996), Hydrocarbon Sector Reform and Capitalization Credit (1996), Power Sector Reform TA Credit (1996), Regulatory Reform and Privatization TA Credit (1998), and Regulatory Reform Sector Adjustment Credit (1999). Non-lending support was provided through analytical work on the framework for private sector participation in infrastructure. In this and subsequent notes on the specific Bank products supporting particular objectives, credits approved during earlier periods that were still in implementation and supported objectives of the 1998 CAS are mentioned.

3.3 Progress was made in a number of these dimensions. Staffing norms and codes of conduct for SIRESE were developed and implemented. Legislation was passed providing for administrative law review of regulatory decisions and for concessions and regulation in power, water and sanitation.<sup>31</sup> Some remaining National Oil Company subsidiaries were privatized. In transportation, however, the Transportation Ministry effectively blocked the separation of policy and operational functions and the passage of a transport law that would accomplish this.

3.4 Sector-level indicators shown in Table 3.1 suggest that progress was made at the sectoral level as well, although the picture is mixed depending upon the sector. Overall, foreign direct investment - driven primarily by investment in hydrocarbons companies privatized under the government's Capitalization Program—increased substantially (almost doubling) as a share of GDP, and trends in Bolivia compared very favorably with those in neighboring countries. The data also show an improvement in the quality and quantity of some services particularly in telecommunications and energy. Real prices of many services have declined since 1995, although water prices—which increased dramatically between 1995 and 1999 and at above the rate of inflation since 1999 - are important exceptions.

**Table 3.1: Indicators of Regulated Utilities Performance**

Indicator	Met/Up?	Baseline		CAS Goal/ Projection	Outcome	
		Period	Value		Period	Value
Regulatory System Indicators						
Foreign Direct Investment/GDP (%)	Yes	1993-97	5.2		1998-02	9.9
Power						
Price Index (1990=100)	Yes*	1999	263.78	NA	2003	272.83
Consumption Index (1990=100)	Yes*	1999	216.55	NA	2003	237.17
Telecommunications						
Fixed Lines (000s)	Yes*	1999	502.57	NA	2003	619.27
Mobile subscribers	Yes*	1999	420.34	NA	2003	1401.46
Price Index (1990=100)	Yes*	1999	180.55	NA	2003	124.35
Consumption Index (1990=100)	Yes*	1999	528.49	NA	2003	640.1
Hydrocarbons						
Proven/Probable Reserves of Gas (tcf)	Yes*	1999	9	NA	2003	55
Proven/Probable Reserves of Oil (mil barrels)	Yes*	1999	241	NA	2003	957
Sales of natural gas – domestic (bil. cf)	No**	1999	37.778	NA	2003	36.980
Sales of natural gas – exports (bil. cf)	Yes*	1999	[36.205]	NA	2003	178.272
Rail Transportation (1990=100)						
Quantity	Yes*	1999	150.48	NA	2003	164.07
Price	Yes*	1999	127.03	NA	2003	136.5
Air Transportation (1990=100)						
Passenger	No**	1999	176.8	NA	2003	170.8
Cargo	Yes*	1999	82.23	NA	2003	90.73
Road Transportation (1990=100)						
Passenger	Yes*	1999	199.37	NA	2003	245.15
Cargo	Yes*	1999	188.68	NA	2003	216.36
Water – Index of Consumption (1990=100)						
Quantity	No**	1999	132.87	NA	2003	138.35
Price	No**	1999	353.29	NA	2003	433.9

Sources: National Statistics Institute; SIRESE.

\*\*Yes\* in the case of price indices indicates a rate of change lower than the rate of inflation measured by the GDP deflator. In the case of quantity indices, indicates a rate of increase greater than the rate of GDP growth.

\*\*\*No\* in the case of price indices indicates a rate of change greater than the rate of inflation measured by the GDP deflator. In the case of quantity indices, indicates a rate of increase lower than the rate of GDP growth.

<sup>31</sup> Basic Water and Sanitation Law, passed in October 1999.

### **Box 3.1: The Water Wars of 2000 and 2005**

Under an IDA credit, the World Bank had promoted concessions for the operation of the Cochabamba and La Paz/El Alto water supply and sewerage systems as a cost effective way to improve the cities' poor service. In Cochabamba, local opposition arose against a Bank recommendation to use cheaper water from the existing Corani dam instead of a more expensive plan that would have transferred water from distant rivers. The IDA credit closed without any Cochabamba concession being signed.

Later, the municipal coalition that had opposed the Bank's recommendation negotiated directly (without any Bank involvement) a concession contract based on the more expensive scheme. The central government regulator signed the contract. The concessionaire, Aguas del Tunari, took over in late 1999 and promptly raised tariffs, as authorized by the Bolivian sector regulator, but without improving service quality. Severe civic opposition and rioting – the “Water Wars” - followed, and prompted the government to cancel the contract in early 2000. The regulation law that had been adopted in late 1999 was also modified and the regulator was forced to resign.

Initially, the concession process went smoothly in La Paz/El Alto. Invitations to bid were issued in April 1997, and a contract signed in July 1997. After years in which the state water company failed to keep pace with demand, Aguas del Illimani – the concessionaire - expanded coverage, especially among the poor. The annual rate of new sewerage and water connections rose by two-thirds in the first years of the contract. After the Water Wars in Cochabamba, however, the government rejected a request by Aguas del Illimani to raise tariffs—which were lower than those charged by public-sector water firms - to help pay for the expansion of coverage. Instead it decreed a rise in connection charges to US\$450 for water and sewerage—or about six months' wages for the “average” Bolivian. So the increase in coverage slowed. Meanwhile, El Alto's population grew rapidly, as migrants flooded in from poor rural areas. As discontent over the issue mounted in El Alto, the government asked the company to renegotiate the contract, and the mayors of both cities, re-elected in December, 2004, called for the rescission of the contract. In January 2005, the government – facing discontent on a number of issues – acceded to demands advanced in massive demonstrations and blockades in El Alto and notified Aguas del Illimani that its concession would be terminated.

*Source:* World Bank documents and La Razon.

3.5 These generally positive developments notwithstanding, private participation in infrastructure remains an intensely controversial issue and a frequent source of violence and disruption. The Cochabamba “Water War” in 2000 (see Box 3.1) and more recently violent protests in October 2003 over hydrocarbons demonstrate the heightened political and social sensitivities surrounding private sector participation in infrastructure. An amended Water Law limited the independence of the regulator by requiring that any decisions on water tariffs made by the Superintendency have to be supported by a technical opinion on the proposed changes from the affected municipalities. Regulators remain under considerable political pressure in all sectors, and it is doubtful that regulators were able to act with the intended degree of independence. In late 2004, five of the six superintendents are in an acting status as Congress had not yet nominated the candidates for a permanent position. SIRESE had lost its financial autonomy and had been subjected to austerity measures even though its budget is self-financed through user charges.

### ***Financial Sector Strengthening Objectives***

3.6 Bank support for financial sector strengthening emphasized improvement of financial system regulations, particularly the banking system's prudential norms, and strengthening the

competence and independence of financial system regulators.<sup>32</sup> Specific support was also provided to help Bolivia develop the institutional framework to support the pension reform. This approach was consistent with the recommendations of the previous CAE.

3.7 Progress was made with regard to most of the Bank's specific institutional development objectives in the financial sector. This included passage of legislation strengthening the legal foundations for bank supervision with the enactment of Popular Credit and Property Law and the Financial System Strengthening Law. The former established a coordinating body to prepare and approve prudential regulations and strengthened the regulatory framework of the pension system. The latter amended the banking law to strengthen legal foundations for improved internal and external governance of financial institutions and to create a comprehensive failure resolution framework. It also consolidated all depository institutions into one regulatory framework, assuring a level playing field for intermediaries and preventing regulatory competition. New regulations dealing with loan classification and loan loss reserves consistent with international practice were adopted, and effective supervision of the new contributory pensions system made operational.

3.8 Developments in the financial sector, however, present a mixed picture. While progress was made in strengthening financial sector regulatory institutions, many indicators of sector performance have deteriorated. As banking indicators in Table 3.2 show, the banks are in precarious condition with periodic deposit runs reflecting a low level of confidence in the system. Total assets have fallen by 33 percent in the last five years, and profitability has declined. Banks are still struggling in terms of low profitability and owners are unwilling to inject additional capital. At over 61 percent of capital plus provisions in 2003, problem loans are high, and provisions for loan losses are sub-standard. The limited size of the domestic market also points to the need for further reduction in the number of banks either through mergers or exit from the market.

3.9 The pension system has grown after the pension reform. Participation in the reformed contributory system was about 19 percent of Bolivia's economically active population in 2003, up from an estimated 14 percent in 1999. The transition to the new system, however, has been accompanied by burgeoning and unsustainable growth of reform transition costs. Strong political pressures have led to repeated benefit changes that, together with corruption and fraud, increased the transition costs of the reform from 2 percent of GDP to approximately 5 percent of GDP in 2002 and beyond for a number of years, and have jeopardized the fiduciary management of the private pension funds.

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<sup>32</sup> Bank support was provided through the Financial Markets and Pension Reform TA Credit (1996) and the Regulatory Reform Adjustment Credit (1999).

**Table 3.2: Indicators of Financial System Performance**

Indicator	Met/Up?	Baseline		CAS Goal/	Outcome	
		Period	Value	Projection	Period	Value
Financial System Indicators						
Banking						
M2/GDP (1999=100)	No	1999	100.0	NA	2003	87.7
Currency/Deposits (1999=100)	No	1999	100.0	NA	2003	134.8
Demand Deposits/Time Deposits	No	1999	100.0	NA	2003	107.7
Private Sector Credit/GDP	No	1999	100.0	NA	2003	75.0
Total Assets (mn US \$)	No	1999	5,578	NA	2003	3,813
Return on Equity (%)	No	1999	8.4	NA	2003	2.8
Problem Loans/(Capital + Provisions) (%)	No	1999	42.5	NA	2003	61.2
EIU Banking Sector Risk (0 least risky – 100 most risky)	No	1998, Q2	56	NA	2004 (July)	67
Pension Funds						
Members of Contributory Funds	Yes	1999	527,365	NA	2002	760,959
Value of Contributory Funds (% GDP)	Yes	1998	1.5	NA	2003	6.3
Contribution to Public Sector Fiscal Balance (% GDP)	No	1998	-4.0	-3.5	1998-02	-5.5

Source: National Statistics Institute; IMF International Financial Statistics; Superintendent of Pensions, IMF 2004.

### ***Physical Infrastructure Objectives***

3.10 The Bank's objective in this part of its program was to increase the supply of public infrastructure services, to complement the increased flow of services that was expected to flow from private sector participation in some infrastructure sectors. Improving these services was viewed as essential to promoting private sector led growth. Bank support of investment in physical infrastructure was limited to the roads sector, where adequate private investment was unlikely to materialize. In conjunction with this investment, the Bank also sought to advance the strengthening of Bolivia's road construction and management institutions.<sup>33</sup>

3.11 Developments in this area point to some degree of improvement of road sector institution performance. Road maintenance by the National Roads Agency (SNC) has improved as a result of identifying reliable sources of funding. The National Fund for Road Maintenance obtains resources from tolls, the petroleum tax, and financing from the World Bank and the Andean Finance Corporation (CAF). The agency's initiative to contract with micro-enterprises for local road maintenance reportedly has worked very well.

3.12 Indicators of sector performance shown in Table 3.3 suggest only very modest improvement over the last few years. The volume of trade transported by road, one of the indicators proposed in the 1998 CAS, shows no tendency to increase. Completions of road works were delayed pending resolution of implementation and institutional issues, and physical benchmarks set forth in the 1998 CAS were not met, although execution of the government's investment program remained on track through 2003. The extent of the road network increased, although only in the case of paved roads did this increase as rapidly as GDP.

<sup>33</sup> Bank support was provided through the Second Road Maintenance Credit (1992), Abapo-Camiri Highway Credit (1999), and the Road Rehabilitation and Maintenance Credit (2002).

**Table 3.3: Indicators of Progress Toward Road Transport Objectives**

Indicator	Met/Up?	Baseline		CAS Goal/	Outcome	
		Period	Value	Projection	Period	Value
Physical Infrastructure Indicators						
Exports via Road (% of trade volume)	No					
Completions of Highway Construction	No					
Road Network (km)	No*	1997	53,468		2003	60,751
ow Paved	Yes*	1997	3,071		2003	4,283
ow Gravel	No*	1997	16,415		2003	18,522
ow Earth	No*	1997	33,982		2003	37,946

Source: National Statistics Institute.

\* "No" indicates rate of increase lower than average rate of GDP growth of 2.4 percent pa. "Yes" indicates rate of increase higher than 2.4 percent pa.

### ***Evaluation of Progress Toward Opportunity Objectives***

3.13 Many of the specific objectives of Bank assistance were achieved in the Opportunity area (e.g., strengthening regulatory capacity and bank supervision), and these contributed positively to improved sector outcomes in some dimensions (e.g. increased quality and consumption of a number of infrastructure services at a declining real cost). There were, however, some key problems (e.g., key stakeholders opposition to reforms, the overall business environment) – many identified as risks in the CAS and in operational documentation – that were not directly addressed by the Bank and that, as events unfolded, undermined development outcomes. These omissions diminished the relevance of Bank private sector development assistance.

3.14 In the Regulatory Reform area, continuing political intervention in regulation has meant that regulator's independence is somewhat tentative, and large (enough to be troublesome) segments of the population remain unconvinced, notwithstanding indicators to the contrary, that private ownership/management of infrastructure services and regulation well serve their interests. For these reasons, the outcome of the Bank's support to Regulatory Reform is rated as *Moderately Satisfactory*. The Institutional Development impact, in view of the continuing threats of politicization, is rated as *Modest*, and Sustainability, due to these threats and the possibility that the Hydrocarbons Law and/or the Constituent Assembly will renationalize infrastructure or sharply reduce the scope for private participation, is rated as *Unlikely*.

3.15 The story in the Financial Sector area is much the same. Progress was made in developing capable financial regulation backed by good legislation and technically strong capacity. This capability, however, has not been fully effective due, as in Regulatory Reform, to political pushback. More importantly, critical aspects of implementation of the pension reform – some political, some institutional – were not anticipated and addressed. These unaddressed aspects – the political temptation to sweeten benefits at key points, to dip into the contributory system to finance the non-contributory portion of the new pension system, and the institutional weaknesses of pensions administration to administer a system that was prone to corruption – diminished the relevance of Bank assistance and may have contributed to the very high fiscal costs of the reform. For these reasons, outcome in this area is rated as *Moderately Unsatisfactory*, and Institutional Development as *Modest*, notwithstanding the very positive achievements of Bank assistance in financial sector regulation and in development of a private contributory system. Sustainability, given the extreme present uncertainty and risk that future policies will call for more active government use of finance as an instrument of development, is rated as *Unlikely*.

3.16 In Physical Infrastructure, implementation and achievement of Bank objectives was delayed by an impasse over institutional reform of the National Roads Agency. The Bank was nonetheless right to insist on this reform – not flagged in the CAS – before proceeding, and its focus on road transportation and road transport institutions is highly relevant. Progress however on construction and related objectives is lagging as a result of initial delays and, more recently, Bolivia’s inability to implement the road transportation budget. Outcome is rated as *Moderately Unsatisfactory*, Institutional Development impact as *Modest*, and Sustainability, due to increasing risk that Bolivia will not be able to finance significant expansion of road transport, as *Unlikely*.

## Equity Objectives

### *Increase Social Expenditures*

3.17 The Bank’s objective was to support the expansion of basic social services, particularly maternal and child health, primary education, and basic water and sanitation. The CAS further noted that such expansion should emphasize extending these basic social services to the poor.<sup>34</sup>

3.18 Social expenditures, as shown in Table 3.4, have increased substantially and reached almost 13 percent of GDP in 2003, financed in part by HIPC resources.<sup>35</sup> The management of public expenditures has shifted from the Central Government to municipalities and prefectures which control 65 percent of the investment program.<sup>36</sup> Government spending in the health area increased substantially, from 3.1 percent of GDP in 1998 to 3.6 percent in 2003, up from 2.8 percent in 1998. Spending on education below the university level rose from 4.6 percent of GDP in 1998 to 5.6 percent in 2003.

**Table 3.4: Indicators of Social Expenditures**

Indicator	Met/Up?	Baseline		CAS Goal/ Projection	Outcome	
		Period	Value		Period	Value
Social Expenditure Indicators						
Basic Social Expenditures (% of GDP)	Yes	1998	10.2	NA	2003	12.9
Government Health Expenditure (% GDP)	Yes	1998	2.8	NA	2003	3.6
Primary and Secondary Education Expenditure (% GDP)	Yes	1998	4.6	NA	2003	5.6
Total Education Expenditure (% GDP)	Yes	1998	5.7	NA	2002	6.1
Tertiary Education Current Expenditure (% GDP)	No	1998	1.3	Lower	2002	1.5

Source: World Bank 2004b.

3.19 Government spending also became more pro-poor over the period of the CAS. The share of current government spending on health and education on poor Bolivians rose from 57.7 percent of the total in 1999 to 60.4 percent in 2002.<sup>37</sup> Infrastructure spending also shifted toward the poorer income quintiles over the same period.<sup>38</sup>

<sup>34</sup> Support for these objectives was provided through the Social Investment Fund II Credit (1993), Rural Communities Development Credit (1996), Rural Water and Sanitation Credit (1996), and Bolivia Social Safety Net Sector Adjustment Credit (2003).

<sup>35</sup> World Bank, 2004b.

<sup>36</sup> World Bank, 1999b.

<sup>37</sup> World Bank, 2004b.

<sup>38</sup> World Bank, 2004b, p 26.

3.20 A few indicators, however, raise questions about some aspects of trends in the composition of social expenditures that will merit monitoring in the future. The 1999 PER found no need for an increase in education expenditure in relation to GDP. Such expenditure did increase. The PER and the 1998 CAS had also identified a reduction in the share of the total government education budget flowing to university students as one of its goals in education. Per-student costs for higher education are far higher than those for lower levels of education, and most of these costs subsidize the education of people in the top quintile of Bolivia's income distribution. In the event, the share of higher education in the total education budget rose from 23 percent in 1998 to 25 percent in 2002.

### *Efficiency and Quality Objectives*

3.21 The Bank's support targeted diffusion of innovations in primary education and maternal and child health that would make these services more accessible to the poor and more effective in improving well-being.<sup>39</sup> In education, this involved several elements: strengthening the Ministry of Education so that education services could be delivered where needed; revising the curriculum to move from rote learning to the development of reasoning; developing bilingual approaches where relevant;<sup>40</sup> and supporting effective decentralization of the education system by involving parents in oversight at the local level. In health, the Bank emphasized extending health care into more remote rural areas by supporting the decentralization of responsibility to the regional level, and emphasized those areas of the Millennium Development Goals (MDGs) in which Bolivia most lagged – infant and maternal mortality.

3.22 Significant progress was made on most of the Bank's specific objectives in health and education. In education, primary education was made more widely available based on a curriculum and instructional approaches that, emerging evidence suggests, should result in greater learning achievement. In health, the introduction of a results oriented culture that guides efforts at the central, departmental and most importantly municipal levels has been a major achievement. The creation of preferred and free access to health care addressing maternal and child health issues, supported by an increase in the number of rural health posts, has resulted in increased utilization of the health-care system.

3.23 Performance in both sectors has improved substantially, as shown in Table 3.5. In health, utilization and outcome indicators show dramatic improvements, exceeding even the ambitious targets set in the CAS.<sup>41</sup> In education, utilization and outcome indicators also show improvement.<sup>42</sup> Notwithstanding the concerns raised about the composition of spending above, several indicators also are suggestive, if not conclusive, of increased quality and efficiency.

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<sup>39</sup> The Bank supported improvements in educational quality and efficiency through the Education Reform Credit (1995), and Education Quality Credit (1998). In health, support was provided through the Integrated Child Development Credit (1992), Health Reform APL I (1999), and Health Reform APL II (2001).

<sup>40</sup> The emphasis on use of bilingual education to improve the reach and efficacy of education for Bolivia's indigenous population was initially opposed by the Bank, but eventually endorsed in response to strong support by Bolivian educators.

<sup>41</sup> The rate of decline of infant mortality since 1995 has been about average for Latin America.

<sup>42</sup> There is also limited evidence concerning the effect of the educational reform on educational achievement. Achievement testing of 3<sup>rd</sup> grade students shows that students attending schools where the education reform has been implemented have lower failure rates than do students in non-reforming schools, and that the proportion of

**Table 3.5: Indicators of Outcomes, Quality and Efficiency in Health and Education**

Indicator	Met/Up?	Baseline		CAS Goal/	Outcome	
		Period	Value	Projection	Period	Value
<b>Outcome and Utilization Indicators</b>						
Births attended by trained personnel (%)	Yes	1997	55.7	68.0	2002	72
Infant Mortality, deaths per thousand live births	Yes	1997-98	69	57	2002-03	54
Urban	Yes	1997-98	50	NA	2002-03	44
Rural	Yes	1997-98	90	NA	2002-03	67
Maternal Mortality, deaths per 100 thousand live births	Yes	1997-98	390	290	2002-03	229
Child Malnutrition (weight/age, %)	No	1997-98	9.5	6.0	2002-03	7.5
Child Malnutrition (height/age, %)	No	1997-98	25.6	NA	2002-03	26.5
Additional Households Received Piped Water	?	1997-98	35592	22093		No data
Education Retention Rate, 1 <sup>st</sup> to 4 <sup>th</sup> grade (%)	Yes	1997	64.4	77.0	2002	77.7
Gross Primary Enrollment (%)	Yes	1998	97	NA	2002	99
Net Primary Enrollment	Yes	1998	87	NA	2002	88
<b>Quality and Efficiency Indicators</b>						
Student Teacher Ratio - Primary	No	1997	25	NA	2001	25
Student Teacher Ratio - Secondary	Yes	1997	21	NA	2001	25
Student Teacher Ratio - Tertiary	Yes	1997	24	NA	2000	27
Primary and secondary teachers without degrees (%)	Yes	1998	28	NA	2002	19
Population per Hospital Bed	Yes	1998	910	NA	2003	960
Repeat Consultations/New Consultations, patients < 5yrs, %	Yes	1998	29.3	NA	2003	17
Repeat Consultations/New Consultations, patients ≥5 yrs, %	Yes	1998	41.3	NA	2003	42.2

Sources: DHS; National Statistics Institute.

### ***Rural Productivity***

3.24 The Bank focused on improving rural infrastructure and involving Bolivia's indigenous population in identifying suitable productive activities as its vehicles for increasing rural productivity.<sup>43</sup> This approach was broadly consistent with the recommendations of the previous CAE. In the rural infrastructure area, it sought further to develop the capabilities of rural municipalities in infrastructure planning and project management, to involve small and micro-scale enterprises in the provision of basic infrastructure services, and the introduction of alternative technologies for effective service delivery in remote areas.

3.25 Little progress was made toward the specific objectives of Bank operations. Implementation has been severely delayed. One operation was suspended for a considerable period of time while allegations of corruption were investigated and ultimately resulted in successful prosecutions and convictions.

3.26 Indicators of sector productivity are few, but do not show (see Table 3.6) any tendency for rural productivity to increase. Average labor productivity in non-traditional agriculture declined. There is, however, some evidence in household survey data that, between 1999 and 2002, income of the middle deciles (2-9) of rural population income distribution grew more

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students at the highest level of achievement is higher in reforming schools. See Table 11.3, Manuel E. Contreras, "A Comparative Perspective of Education Reforms in Bolivia: 1950-2000", in ed. Merilee S. Grindle and Pilar Domingo, *Proclaiming Revolution: Bolivia in Historical Perspective* (2003).

<sup>43</sup> The Bank's support for increasing rural productivity was provided through the Agricultural Technology Development Credit (1991), the Participatory Rural Investment Credit (1998), the Indigenous People's Development Credit (2001).

rapidly than incomes of the corresponding urban deciles, and that growth for rural deciles 3-9 was positive.<sup>44</sup>

**Table 3.6: Indicators of Rural Productivity**

Indicator	Met/Up?	Baseline		CAS Goal/	Outcome	
		Period	Value	Projection	Period	Value
Rural Productivity Indicators						
Rural productivity (non ag gdp/non ag labor force)	No	1997	1053	1096	2002	889
Rural Household Income Deciles 3-8 (growth)	Yes				1999-03	2.5

Sources: National Statistics Institute; World Bank 2004.

### ***Evaluation of Progress Toward Equity Objectives***

3.27 Clear progress was made against social sector spending and social service quality and efficiency objectives. The relevance of non-income dimensions of equity was diminished by lower-than-expected growth and the relevance of expenditure objectives was diminished slightly by some evidence that the composition of social sector spending may be evolving in some undesirable ways. Relevance and efficacy considerations together, however, point to high outcome ratings, *Satisfactory* in both cases. The Institutional Development impact of the increase in spending, per se, is *Modest*, while that for quality and efficiency – in view of significant changes in the way these sectors operate is *High*. The Sustainability of increased spending is rated as *Non-evaluable* in view of the extreme uncertainty surrounding Bolivia's future public finances, while that of the innovations that have been made to improve quality and efficiency of social services, in view of the positive results achieved, is rated as *Likely*.

3.28 Little progress was made either with regard to specific Bank rural productivity objectives or indicators of rural productivity outcomes. Relevance of Bank assistance in this area was modest because it was not based on a clear strategy for increasing rural productivity and achievement of specific objectives was impeded by implementation problems. Outcome in this area is rated as *Unsatisfactory*, Institutional Development impact as *Negligible*, and Sustainability – in view of the lack of progress - as *Non-evaluable*.

### **Institutionality Objectives**

#### ***Efficient and Transparent State***

3.29 To help Bolivia develop an efficient and transparent state, the Bank's specific objectives envisaged delimiting technical versus political positions within the public administration, developing a stable, professional civil service to staff the non-political positions, and establishing and monitoring standards for administrative processes, particularly procurement. The Bank and the government also envisaged a frontal attack on corruption which, in addition to the expected salutary effects of other modernization and judicial reforms, was to be promoted by tracking perceptions and through audits of public agencies.<sup>45</sup> This approach was consistent with the recommendations of the previous CAE.

<sup>44</sup> World Bank 2004e, Figure 2.

<sup>45</sup> Bank lending support was provided through the Financial Decentralization and Accountability Credit (1998), and the Institutional Reform Credit (1999). Non-lending support was provided through Public Expenditure Reviews in

3.30 Only limited progress was made toward specific objectives supported by the Bank. A Civil Service Law was passed and about 2,400 central government staff (less than 20 percent of the total) is now under this system. The system has been implemented most successfully in three autonomous agencies: Customs, Internal Revenue, and Road. It has been least successful in line ministries. Large parts of the government still – at least until the current Mesa administration – operate on the patronage system, and there is as yet no established institutional safeguard to re-emergence of this system. No census of public personnel exists, and there is thus a possibility that public payrolls are inflated.

3.31 Limited progress has also been made in strengthening some dimensions – particularly systems – of public sector financial management. The Integrated Financial Management System (SIGMA) was implemented in almost all central agencies and in several autonomous government institutions. However, it has been implemented only in larger municipalities, and its present suitability for application in small municipalities is uncertain. At present, it encompasses only about 50 percent of public expenditure. SIGMA's utility as a financial management tool is further compromised by problems in budget processes that render the budget unrealistic – and hence the budget impossible to implement as formulated. Audit capacity has been strengthened, but audits findings and recommendations are rarely implemented.

3.32 On the corruption front, early in the FY99-03 CAS period, the government adopted a National Integrity Program to combat corruption. At an operational level, the program relied heavily on the substantive measures to be addressed under modernization (e.g., civil service reform, improved public sector financial management), and progress has therefore been modest.

3.33 Perceptions and performance rating indicators, as shown in Table 3.7, are consistent with the conclusion that progress has been quite modest on the modernization objectives supported by the Bank. WBI governance indicators either deteriorated (regulatory quality and voice and accountability) or remained largely unchanged (corruption and rule of law).<sup>46</sup> The International Country Risk Guide (ICRG) shows deterioration in the corruption index. It went from a risk of 3 in July 1998 to 2 in July 2004 (in the scale 1-6, the higher the risk, the lower the value).<sup>47</sup> Bureaucracy Quality remained constant at 2 during the same period (scale 1-4).

3.34 The recently completed joint Bank-IMF HIPC Public Expenditure Tracking Assessment and Action Plan for 2003-04 finds that Bolivia's public financial management systems and processes meet only four of the sixteen benchmarks, down from five in the 2001 assessment. By way of comparison, in the 2003-04 assessment, Honduras met seven benchmarks, Burkina Faso met nine, and Ghana met seven. Of twenty-four HIPC countries examined in the 2001 assessment, only one met fewer standards and received higher aid per capita than did Bolivia; ten countries met more standards but received less aid per capita.

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1999 and 2004, a procurement assessment (1999), two financial accountability assessments (1999 and 2004), and an Institutional Review (1999).

<sup>46</sup> D. Kaufmann, A. Kraay and M. Mastruzzi, 2003: Governance Matters II: Governance Indicators for 1996-2002.

<sup>47</sup> ICRG 1997.

**Table 3.7: Indicators of Public Sector Modernization and Transparency**

Indicator	Met/Up?	Baseline		CAS Goal/ Projection	Outcome		
		Period	Value		Period	Value	
Governance Indicators							
ICRG Political Risk (0 riskiest – 100 least risky)	No	1998 (July)	70.0	NA	2004 (July)	61.5	
ICRG Quality of Bureaucracy (0 lowest – 4 highest)	No	1998 (July)	2	NA	2004 (July)	2	
ICRG Government Stability (0 lowest – 12 highest)	No	1998 (July)	10	NA	2004 (July)	7	
ICRG Law and Order	No	1998 (July)	3	NA	2004 (July)	3	
IDA-IMF Expenditure Standards Met (0 lowest -16 highest)	No	2001	5	NA	2003-04	4	

Source: ICRG.

### ***Judicial Reform***

3.35 The Bank sought to improve the efficiency of the civil judicial system. This was to be accomplished – as recommended in the previous CAE - by “professionalization” of the judiciary and the modernization of judicial systems and processes aimed at reducing litigation time and the number of unresolved cases.<sup>48</sup>

3.36 The main objectives of Bank assistance in this area were not achieved. Nonetheless, some progress was made in some dimensions of judicial reform, building on reforms initiated earlier in the mid 1990s, including reforms of civil and commercial codes, and administrative law, establishment of a constitutional tribunal and judicial council. An information system (SISMAN) was introduced to track cases. However, SISMAN requires information considered by staff as extra work with limited utility. Therefore, information had been submitted only sporadically. In fact, no information is available to verify if court (litigation) delays are getting shorter. Moreover, the Supreme Court did not issue guidelines for improving judicial procedures or for limiting their average duration. The Judicial Council launched its first competition for Judges in 1999. A Registry of *Conciliadores* was created. There is, however, no evidence that the system is used or even known. Some studies to implement community/customary laws have been undertaken but no action was taken on this front.

3.37 Indicators in Table 3.8 – though few in number – show little progress in improving judicial performance. The ICRG indicator of Rule of Law is unchanged. World Bank Cost of Doing Business Data suggests that Bolivia compares unfavorably with its neighbors and that; recently, performance may actually have deteriorated. Neighbors’ performance also shows some deterioration, however.

<sup>48</sup> Bank support in this area was provided through the Judicial Reform Credit (1995).

**Table 3.8: Indicators of Civil Judicial System Performance**

Indicator	Met/Up?	Baseline		CAS Goal/ Projection	Outcome	
		Period	Value		Period	Value
Judicial Reform Indicators						
ICRG Law and Order	No	1998 (July)	3	NA	2004 (July)	3
Enforcing Contracts						4
Number of Procedures						
Bolivia	No	2003	44	NA	2004	47
Argentina		2003	32	NA		33
Chile		2003	21	NA	2004	28
Time (days)						
Bolivia	No	2003	464	NA	2004	591
Argentina		2003	300	NA	2004	520
Chile		2003	200	NA	2004	305
Cost (% of debt)						
Bolivia	?	NA	NA	NA	2004	10.6
Argentina		NA	NA	NA	2004	15
Chile		NA	NA	NA	2004	10.4

Source: ICRG; World Bank data

### *Decentralization Objectives*

3.38 The Bank sought to help Bolivia establish a coherent architecture for decentralization and to strengthen the capacity of public administration at all levels to operate within this framework.<sup>49</sup> Specific objectives were to establish a framework for decentralization (e.g., legislation and regulations specifying and implementing the roles and responsibilities of Bolivia's three levels of public administration, and a transparent, equitable and efficient intergovernmental fiscal system), to enhance community participation and control at municipal level, to restore fiscal discipline at the municipal level, and to strengthen the financial and institutional capacity of decentralized public administration to deliver services.

3.39 Progress with regard to specific objectives has been limited despite two adjustment loans,<sup>50</sup> accounting for 16 percent of Bank lending approved during the period under review here. Legislation was never passed – due to political opposition – setting out the decentralization framework. A framework was eventually established by decree, but was never implemented.<sup>51</sup> Community participation, particularly of the rural poor, has increased in local governments and planning and prioritization of projects has effectively been decentralized to the municipal level. However, the reform has encountered formidable obstacles: weak institutional capacity and growing patronage and clientelism at the municipal level;<sup>52</sup> confusion in the roles and responsibilities of the central, departmental and municipal levels of government; and a mismatch between resources and responsibilities. Municipal debt has continued to grow. While a measure

<sup>49</sup> Lending support was provided under the Municipal Development Credit (1994), Financial Decentralization and Accountability Credit (1998), and Programmatic Structural Adjustment Credits I (2001) and II (2003). Non lending support was provided through public expenditure reviews in 1999 and 2004, and financial accountability assessments in those years.

<sup>50</sup> PSAC I and PSAC II.

<sup>51</sup> A framework for decentralization of the power sector was established with the support of PSAC II.

<sup>52</sup> It is interesting and possibility indicative of a changing government model, however, that the mayors of Bolivia's largest cities elected in the municipal elections of December 2004 generally have no connection with traditional political parties.

of transparency has been brought to the allocation of fiscal transfers by making them formula driven, the rationalization of donor financed projects into a single fund had the unforeseen effect of creating a cumbersome and large bureaucracy. As a result, the project approval cycle became more complex and lengthier, adversely affecting local investment.

### **Evaluation of Progress Toward Institutional Objectives**

3.40 The relevance of all facets of the Bank's Institutional assistance was diminished by the failure to address the risks that Bolivia's pacted democracy system would undermine efforts to implement reforms to diminish the scope for patronage or temper political considerations in budget allocations. The specific objectives of Bank assistance in this area generally were not met, although there have been some islands of progress with regard to modernization of the state, and decentralization has been an important factor in improvements in health and education. Decentralization may also be reshaping politics in a way that will ultimately benefit Bolivia's development. The outcomes of Bank assistance with regard to modernization of the state and decentralization are therefore rated as Moderately Unsatisfactory. The outcome of judicial reform, where there is very little evidence of improvement, is Unsatisfactory. Institutional Development impact in the modernization and decentralization areas is rated as Modest, while that in judicial reform is rated Negligible. Sustainability of the very modest achievements in the modernization (due to risks that civil service reforms will not be sustainable fiscally) and judicial reform (where a number of achievements have already been reversed or cease to operate) areas is Unlikely, but decentralization is popular, and given the diversity and desire for more autonomy of several of Bolivia's regions, Likely to be sustained.

### **Objectives of the FY04-05 Strategy**

#### ***Near Term Political and Economic Objectives***

3.41 Mixed progress was made during FY04 toward objectives of the FY04-05 strategy. On the political front, critical issues concerning Bolivia's future hydrocarbons policy, and more broadly, its economic and political model are still pending. While a referendum was held on hydrocarbons policy early in Bank FY05, no clear mandate emerged. Hydrocarbons legislation had not been passed at the end of CY 2004. Hydrocarbons policies and laws thus remain highly uncertain. The nature and scope of the constitutional assembly was still highly uncertain at the end of 2004 as well.

3.42 On the economic front, macroeconomic stability was maintained as a result of strong fiscal adjustment measures, sustained donor support, favorable terms of trade developments, and strong growth in Brazil and Argentina. The fiscal deficit was reduced substantially – to about 6 percent of GDP for 2004, due both to the effect of growth in buoying revenues and to the effect of expenditure restraint and additional revenue mobilization measures. There still, however, is no medium term strategy for fiscal adjustment.

#### ***Evaluation of Progress Toward Near Term Political and Economic Objectives***

3.43 The Bank did a good job in a very difficult environment in delivering assistance during FY04 as per the strategy outlined in the CAS. While the Bank's program was highly relevant,

little progress was made with regard to resolution of the political and social uncertainties on which Bolivia's future development depends. Support from the Bank and other donor's did, however, help sustain Bolivia during this difficult period and contributed to containing the social and economic impact of the political crisis. The outcome of Bank assistance, due to the lack of progress on critical political and social issues during this period, is rated as *Moderately Unsatisfactory*. Institutional Development impact has been *Negligible*, and Sustainability is rated as *Non-evaluable*.

### Summary Assessment

3.44 Significant progress was made in increasing access to social services and improving the quality and probably the efficiency of health and education. Progress was also made in building a formal legal framework and technical institutional capacity for regulation in infrastructure and finance. The extent to which this framework and capacity will actually be put to use remains to be determined. In the Institutional Development area, some progress was made in establishing "beachheads" in civil service reform and public sector financial management, but the achievements have been modest in relation to the Bank's objectives and have had a negligible overall impact on incentives and behaviors in the public sector. The sustainability of these beachheads is at high risk.

3.45 The analysis presented in the preceding sections of this chapter is summarized in Table 3.9. Overall, the outcome of Bank assistance in both periods, FY99-03 and FY04 is rated as *Moderately Unsatisfactory*.

**Table 3.9: Summary of Evaluation Ratings**

Objective	Outcome	Institutional Development	Sustainability
<b>Opportunity</b>	<b>Moderately Unsatisfactory</b>	<b>Modest</b>	<b>Unlikely</b>
Regulatory Reform	Moderately Satisfactory	Modest	Unlikely
Financial Sector	Moderately Unsatisfactory	Modest	Unlikely
Physical Infrastructure	Moderately Unsatisfactory	Modest	Unlikely
<b>Equity</b>	<b>Moderately Satisfactory</b>	<b>Substantial</b>	<b>Non-evaluable</b>
Increase Spending	Satisfactory	Modest	Non-evaluable
Efficiency and quality	Satisfactory	High	Likely
Rural Productivity	Unsatisfactory	Negligible	Non-evaluable
<b>Institutionality</b>	<b>Moderately Unsatisfactory</b>	<b>Modest</b>	<b>Unlikely</b>
Modernize State	Moderately Unsatisfactory	Modest	Unlikely
Judicial Reform	Unsatisfactory	Negligible	Unlikely
Decentralization	Moderately Unsatisfactory	Modest	Likely
Overall FY 1999-03	Moderately Unsatisfactory	Modest	Unlikely
Overall FY 2004	Moderately Unsatisfactory	Negligible	Non-evaluable

## 4. Contributions to Outcomes

4.1 This chapter assesses the contribution of various factors to the outcomes examined in the preceding chapter. Growth and poverty reduction outcomes since mid-1998 reflect, in large measure, the decline in aggregate demand for Bolivia's output that resulted from internal "shocks" and economic crises in Brazil and Argentina, and more recently the recovery in external demand. Previous reforms supported by the Bank and other donors, donor operations and government efforts to stimulate the economy had some effect in cushioning the impact of these shocks. Bolivia's growth during this difficult period was in line with that of Chile, the region's top reformer, but growth was less than half what had been expected.

4.2 The outcomes with regard to many specific lower-level objectives of Bank assistance outlined in the preceding chapter – areas where progress could be expected notwithstanding economic shocks, were not good, even factoring in the difficulties Bolivia has faced. Why? Were expectations and objectives too ambitious? Was adequate attention paid to risks? Or was assistance not well-given and/or well-used?

### Bank Performance

4.3 Bank performance over this period has much to commend it with regard to both process and substance. The 1998 CAS and CAS processes were outstanding in presaging and fostering CDF principles, as well as coverage of basic CAS issues.<sup>53</sup> The objectives of the Bank's strategy were linked to poverty reduction, grounded in a government program, and drew upon areas of comparative Bank strength. The Bolivia team also was a good corporate citizen, pioneering in the development and application of new Bank processes and instruments. It worked successfully with the government to incorporate corporate priorities where these were a good fit – e.g., the MDGs, global environmental issues – into the Bank's assistance program.

4.4 The Bank was an important player with regard to all of the specific objectives of its strategy – as spelled out in Chapter 2. On a disbursements basis, between 1998 and 2002, the Bank was one of Bolivia's three largest donors during the period covered by this evaluation. It was the largest donor (on a disbursements basis) in Decentralization (accounting for 38 percent of disbursements in this area), Education (31 percent), and Health (24 percent). However, its contributions extended beyond areas in which it was a major disburser – e.g., in public administration reform, public expenditure reform, anti-corruption, and poverty analysis -- where its analytical contributions have been substantial.

### *Contributing Factors in Satisfactory Outcomes*

4.5 Bank support has been a major contributing factor to the positive developments in all of the areas addressed by its assistance, summarized in Chapter 3. Particularly notable are the

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<sup>53</sup> The Bank's Operations Policy and Core Services (OPCS) unit periodically reviews CAS quality in CAS retrospectives. Although the retrospectives do not publish detailed ratings of CAS's, they do cite examples of good or best practice. In its review of the FY 1998 (second half)- FF 99 cohort, the retrospective cited the 1998 Bolivia CAS as good/best practice in 13 areas, including analysis of country development context and assessment of risks. World Bank, 2000b.

remarkable achievements in the health and education, where committed and capable Bolivians leveraged knowledge and financial support from the Bank and other donors to achieve strong development outcomes. Bank products and services provided finance and a strategic framework for reform that was a major factor in the achievements in these areas. In education, there was a single reform concept, backed by the Bank and implemented consistently between 1994 and 2002, emphasizing monitoring. In health, the Bank-promoted idea that detailed statistics on both inputs and outcomes needed to be collected at the regional level and used to judge the performance of regional administrators was consistently applied for the last decade. Although initially opposed by regional administrators, it seems to have become a part of the ministry culture. The Bank's support for a technically capable unit (as in education) that could collect and analyze the data flowing in from the regions and provide useful diagnoses was an important factor of the recent progress in health. In short, the Bank's interventions were well designed and had a clear results focus, with explicit authorities and accountabilities.

### *Contributing Factors in Unsatisfactory Outcomes*

4.6 In areas where outcomes were less strong, adverse external shocks played a direct role in many cases. Design of Bank operations was also a factor in some cases, particularly decentralization, where an unwieldy and unfocused design contributed to failure to achieve specific operational objectives.

4.7 But the dominant factors in less than fully satisfactory outcomes were adverse political and/or social developments. In some cases, Bank products and services (Regulatory Reform, Financial Sector Reform) met their specific objectives, but were overwhelmed by adverse developments in their effects on outcomes. In other cases (e.g., Decentralization), such adverse developments made it impossible even to achieve specific Bank operation objectives. Unsatisfactory outcomes with regard to Institutional objectives, for example, were the result of fundamental incompatibilities between the "technocratic" reforms supported by the Bank in these areas – most of which would reduce opportunities for patronage - and Bolivia's governance system, which was based on patronage. (See paragraph 1.4).

4.8 These risks – macro-economic shocks, political opposition, social unrest – were recognized by the Bank, both in its strategies and in the design of individual operations. Most of them were beyond the control of the Bank – i.e., the Bank could do little to prevent a risk event in these areas from occurring or to change the probability materially that it would occur. What the Bank should have done was to appraise risks realistically, design a program that has an acceptable risk return trade-off in light of those risks, and – thereafter - adjust its program to achieve the best possible results as events unfolded.

4.9 The Bank erred in its Bolivia program in underestimating both the likelihood and potency of the risks. It therefore did not weight them adequately in the design of its program, or provide adequately for monitoring and adjustment through triggers.

4.10 On the macro-economic front, the base-case macro-economic framework underpinning the Bank's 1998 CAS was basically an "assume everything goes right" scenario. The fact that (a) Bolivia had not previously achieved the projected growth rate – for many of the same reasons that actual growth in 1999 and beyond fell short, and that (b) the assumptions of the Base Case

were that progress would be made on all fronts<sup>54</sup> should have alerted the Bank to the likelihood that growth would be lower than projected.<sup>55</sup>

4.11 On the political and social front, the Bank's assessment seems to have weighted heavily the representations of Bolivia's dynamic team of reformers and Bolivia's pioneering (but nascent) efforts to open up the political system through decentralization, dialogue, and constitutional reform. At the same time, it seems to have heavily discounted the risks associated with high economic and cultural inequality, social division, and the pacted democracy system, and more recently the vacuum created by the breakdown of the pacted democracy system, which, to date, have been driving development outcomes.

4.12 There was mounting evidence by the time of 2001 CAS Progress Report that the basic scenario envisaged in the 1998 CAS was not materializing, while virtually all of the risks were. The severe external shocks were either underway or visible on the horizon at that time. The Bank's Institutional Review had laid bare the barriers posed by Bolivia's political system to the institutional reforms supported by the Bank's program – and these had been dramatically demonstrated during the early phases of implementation of the Institutional Reform Project and, more generally, in political developments. ESW on private sector development brought out business environment constraints forcefully. The pension reform fiscal time bomb could already be heard ticking even more loudly than it was at the time of the 1998 CAS. And, growing impatience and discontent of large segments of the population and their ability to demand redress forcefully was clear from the violent protests of 2000 – which related directly to opposition to some dimensions of the Bank's program.

4.13 The Bank's strategy in the 2001 CAS Progress report did not make any adjustments to address these issues. While there were some sensible and pragmatic adjustments in implementation of the strategy (e.g., the decision to hold hostage the lending program to institutional reforms in the National Roads Agency, to defer entry into secondary education, to stretch out the planned sequence of APLs supporting institutional reform, to defer further engagement on judicial reform pending a more propitious environment), the basic optimism that pervaded the 1998 CAS was still present. The macroeconomic projections, based on the macroeconomic framework of Bolivia's recently completed PRSP, foresaw 5 percent plus growth – that is, that the growth projected in the 1998 CAS, although delayed, would soon materialize.<sup>56</sup> As in the 1998 CAS, it was basically an “assume everything goes according to plan” scenario.<sup>57</sup> The progress report was even clearer than the CAS in its identification of

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<sup>54</sup> The 1998 Base Case scenario envisaged: (i) reduction of deficit to 2 percent of GDP in 2002; (ii) financial sector reforms would deepen financial penetration and increase access to credit and lower intermediation margins; (iii) strengthening of the regulatory framework for privately owned/operated infrastructure and new privatizations would trigger private investment; (iv) customs operations would improve; and (v) gas exports would increase 20 percent per year starting in 1999, and that mining, timber and soybeans production and exports would increase.

<sup>55</sup> In historical data spanning the period 1960-2003, the median five-year moving average growth rate was 3.4 percent per annum. On a per capita basis, the median was just over 1 percent per annum. In only 5 of the 40 five-year averages between 1960 and 2003 did growth equal or exceed 5 percent.

<sup>56</sup> An assessment of the PRSP undertaken in 2001 by a working group of bilateral donors took strong issue with the PRSP's growth projections, and noted that using them as a basis for the poverty reduction strategy threatened the feasibility and sustainability of the strategy.

<sup>57</sup> The assumptions underpinning the 2001 base case framework were: (i) strong macroeconomic policies; (ii) pending financial reforms are to be implemented during 2001 to prevent a banking crisis and to reactivate credit; (iii) Bolivia receives debt relief under the enhanced HIPC initiative; (iv) FDI flows remain strong over the period

political and social risks, but this did not materially alter the Bank's strategy, which still treated these as manageable – notwithstanding mounting evidence to the contrary.

4.14 The 2004 strategy was grounded in plausible base case growth projections (i.e., that growth would be about the historical median) and a balanced assessment of the prospective political and social environment during the CAS period. Three elements of the Bank's strategy, however, were in some tension with this balanced assessment. First, the Bank relied heavily on the PRSP as an instrument of political and social reconciliation, and consequently encouraged the completion of a new PRSP in the hope that Bolivians would come together on a poverty-reduction agenda. This, in retrospect, overestimated the ability of the PRSP process to bridge differences.<sup>58</sup>

4.15 Second was the decision to proceed with IBRD lending. The CAS's analysis of creditworthiness was solid, and indicated that Bolivia would not be creditworthy unless gas exports development and fiscal adjustment proceeded at a reasonable pace. There was no firm basis at the time of the CAS for concluding that either of these conditions would be met.

4.16 Third, the bulk of lending during FY04 was delivered in the form of programmatic development policy lending. This is at some tension with high degree of uncertainty at the time concerning the government's ability to pursue a coherent medium term program. The social sector lending, in view of the success that Bolivia has had in this area, was on more solid ground than bank and corporate restructuring lending, where there may have been little appetite in the private sector and/or little political will to proceed.

### ***A Counterfactual – What Might the Bank Have Done?***

4.17 How would a strategy that weighted these factors more heavily have differed? Would this have made a difference to outcomes? A 1998 strategy that weighted these other factors more heavily would have (i) not front loaded the lending program; (ii) addressed fiscal adjustment issues more forcefully – particularly pension reform; (iii) focused more on strengthening controls – in contrast to sweeping reforms of public administration -- in the institutional part of its program given that the Bank probably could not effectively address underlying political constraints; (iv) focused more on the substance and public perception of performance of enterprises privatized under the capitalization program; (v) focused on the fiscal incentive effects of increased spending – particularly in health and education; and (vi) had a smaller lending program.

4.18 These variations of strategy would also been even more relevant at the time of the 2001 CAS Progress report. Planned investment lending support for decentralization also probably would not have been converted to adjustment lending. While the conversion to adjustment lending could possibly have been justified on the grounds of support to maintain spending and aggregate demand in the face of the external shocks affecting Bolivia, this case was not made.

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2001-2003; (v) pension costs remain unchanged from current estimates; (vi) the municipal fiscal rationalization program manages the municipal debt problem effectively; and, most important, (vii) social, political and economic stability is maintained over the projection period.

<sup>58</sup> In this regard, Bolivia's PRSP experience has some parallels with that of Nicaragua, as documented in the summary of the case study undertaken there for the World Bank and IMF evaluations of the PRSP process.

Increased emphasis on high-visibility high impact projects in poor areas, such as have been undertaken recently, might also have been warranted.

4.19 Would these variations have made a difference in outcomes? Outcomes might have been improved in two respects. First, emphasis on a narrower – and perhaps less ambitious -- set of objectives would have resulted in a smaller gap between expectations and outcomes, and perhaps greater progress – as a result of greater focus -- in some areas. Second, lower lending levels – in the context of greater fiscal adjustment – would have led to better debt outcomes and have helped Bolivia come to grips with the eventual reality of hard budget constraints.

4.20 However, while the Bank should have been more balanced in its assessment and its expectations/objectives, more sensitive to risk-return tradeoffs, and more sensitive in its monitoring of developments and the need these suggested for some modification of the Bank's strategy, this would not have prevented the crisis that increasingly has enveloped Bolivia. What might have been achieved is clearer progress against a more limited set of objectives.

### **Government Performance**

4.21 Government performance – meaning the performance of Bolivia's broad governance systems and processes, encompassing its formal administrative, political, and social institutions – is fundamentally responsible for the outcomes – satisfactory or not - reviewed in the previous chapter. The strong continuing donor support that Bolivia has enjoyed, its role in piloting CDF principles and the PRSP process, and performance on project implementation are evidence of a capable and responsive central aid administration capability – and some degree of political and social traction for some elements of the government's development agenda. The results obtained thus far for health and education is an indication of the government's steadfastness in pursuing reforms in these areas. The government has by all accounts generally been forthcoming and competent in engaging the donors in dialogue, although concerns were expressed to the CAE team that this may have diminished under the press of the current crisis.

4.22 Implementation capacity in the line ministries is weak, however. As a result, donors – including the Bank -- and implementing agencies alike still rely heavily on project implementation units instead of regular government structures. The government's capacity in public expenditure management is also surprisingly weak in a number of dimensions, especially given the level and durability of donor support.

4.23 The most serious impediments to effect use of development assistance over the period reviewed here, however, have been Bolivia's political system and difficult long-standing social and ethnic divisions. Deep differences on fundamental institutional issues – the rules of the game underlying social, political, and economic interaction – have precluded an effective consensus on a development program, and are at base responsible for less-than-fully satisfactory progress toward achievement of Bolivia's Opportunity and Institutional objectives.

### **Other Donors**

4.24 Other donors (excluding the IMF, which Bolivia does not treat as a donor in its development assistance account system) accounted for 84 percent of aid disbursements to Bolivia during CY 1998–2002. Two other donors – the Inter-American Development Bank

(IDB) and the Andean Finance Corporation (CAF) had accounted for a larger share of disbursements than the Bank (IDB – 19 percent, CAF – 21 percent).

4.25 Donors, by their own and by Bank staff accounts, were generally supportive of objectives of the Bank’s program – and in many cases contributed directly through co-financing. Working relationships are generally good (Box 4.1). Areas where co-financing has been extensive include decentralization, various aspects of the reform of public administration, health and education.

**Box 4.1: Some partners’ perceptions of the Bank**

Partners frequently noted and expressed appreciation for the technical excellence, energy, enthusiasm, and creativity of Bank staff, and more generally, for the role the Bank has played. There were, however, also some areas in which concerns were raised.

There is a perception among some donors that – after a promising start -- the Bank’s performance in working with its partners has developed in a way that is not fully consistent with CDF principles. Several donors still express regrets that the Bank withdrew most head-quarters staff in [2000], when the Bank “de-pillarized”. The recent decision to place an HQ staff member in the field to lead the Bank’s institutional development programs is viewed by many other donors as a very positive development. Several donors also commented positively on the recent efforts of Bank task managers to consult with them during missions. These efforts notwithstanding, several donors still hold the view that Bank effectiveness and efficiency, and more generally aid effectiveness and efficiency in Bolivia, would be increased substantially by further decentralization of HQ staff and task management.

Several donors were also critical of what they perceive to be excessive Bank caution with regard to progress on harmonization. Procurement, development of SWAPs, and development of mechanisms for general budget support were cited in this regard.

The Bank is perceived as having been less active in developing and promoting partnerships with civil society organizations – particularly academic/research organizations. Several interlocutors cited a perceived failure to use more Bolivian analytical resources, and to restrict dissemination efforts to government, particularly on sensitive issues.

Another area of concern cited by donors, echoed by Bank staff in the country office and by some civil society members as well, relates to the perception that a large number of senior Bolivian government officials have been hired by the Bank and other international financial institutions. This fosters strong suspicions of conflict of interest and is injurious to both the Bank and government. In a related vein, several observers stated that they believed the Bank had, on occasion, allowed itself to “come too close to the government”, and that this may have clouded the Bank’s judgment at some key junctures.

Overall, probably the best indicator of partners’ perceptions, particularly other donors, of the Bank is that they want more of it - more Bank HQ task managers stationed in country.

*Source:* Interview during CAE mission to Bolivia.

4.26 Bolivia had arrangements with the Fund during the period under review – initially an ESAF/PRGF, which lapsed in April 2002. Bolivia remained without an arrangement in the period leading up to the 2002 presidential elections, and reached an agreement on a stand-by with the Sanchez de Lozada government only in 2003, after protracted and difficult negotiations. Implementation of the stand-by program has been difficult, with occasional impasses over revenue and expenditure measures, and waivers. From CY 1998 to CY 2004, flows (loans +

purchases) on Fund resources and repayments (repayment of loans + repurchases + charges + interest) were US\$5.6 million.

4.27 There was a reasonably clear division of labor with the Bank over the period reviewed here with the Fund assuming the leadership – as is standard - in the macro and tax policy areas and the Bank in the structural area, with some degree of coordinated overlap in the financial sector, public expenditure. Coordination with the Fund has reportedly been good with no serious differences on policy.

## 5. Lessons and Recommendations

5.1 The Bank’s experience in Bolivia during the last five years has been sobering, and instructive, in a number of respects. For the most part, the lessons of this experience are not new – they reinforce lessons that have been learned elsewhere, but perhaps not fully internalized.

### Lessons

5.2 Unbiased, balanced assessments of risk, and re-assessment during implementation, improve the prospects for ex-post development effectiveness. In Bolivia, overly-optimistic political and/or social assessments, maintained during much of the FY99-03 period despite mounting contradictory evidence, led to selection of objectives and instruments that had little chance of success. Overly-optimistic macroeconomic frameworks, also maintained during much of the FY99-03 period, contributed to spending and financing decisions that built debt and sustained aid dependence.<sup>59</sup> Over-optimistic assessments of the Bank’s ability to devolve decision making powers led to early actions that built expectations and later had to be reversed, which adversely affected the Bank’s relationships with the government and other donors.

5.3 Indicators typically used by the Bank and other donors – including those related to the Millennium Development Goals - do not, and probably cannot, fully capture aspects of development that are critical from political and social perspectives. In many respects, Bolivia’s government and its partners did pretty much what the conventional development wisdom said (and says) they should do. And many of these interventions and approaches produced the intermediate results that had been envisaged. Yet sizeable segments of Bolivia’s population remain sufficiently disaffected to paralyze the country, demanding – sometimes successfully - a roll-back of many of the policies supported by the Bank and other donors – no matter what the indicators show. Indicators do not easily capture cultural values, perceptions and attitudes about development issues, and the consequent political and social reactions to them.

5.4 The capacity of new instruments and processes such as CDF/PRSP to build consensus and resolve political and social conflicts is limited in sharply divided countries. In sharply divided countries, the gaps between positions may be too wide to be bridged. While countries usually can produce a document, the program is unlikely to survive a change of government (new governments define themselves by contrasting their program with those of the outgoing

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<sup>59</sup> This is one of the findings of OED’s HIPC evaluation, and is a feature of a number of cases in which outcomes of Bank country assistance programs have been found to be unsatisfactory. See Operations Evaluation Department, 2003c. IMF-IEO’s evaluation of prolonged use of Fund resources also finds “optimism” to be a common factor among countries that have required fund support over long periods of time. See International Monetary Fund, 2002

government), and the consensus achieved likely to reflect little more than an aggregation of demands rather than hard choices among alternatives.

5.5 Prolonged high levels of aid involve a risk that recipients' ability to implement hard budget constraints could be impaired. Prior to the crisis in 2003-04, there were numerous cases where the Bolivian government took decisions that increased budgetary commitments associated with reforms beyond those originally worked out with the Bank and other donors. These included a substantial increase in pension obligations, increases in salaries for teachers and medical workers unconnected to productivity improvements, expansion of the SUMI maternal-child health program beyond its original limits. As a result, there was little room for adjustment if problems should arise. When a crisis did arise, the heavy dependence on donor financing and the lack of room for maneuver placed donors in a position of needing to maintain or increase assistance at precisely those times when its development efficacy was most questionable.

5.6 Donors can stimulate improvements in health and basic education in poor countries. This is the good news from the Bolivia experience, and it parallels similar recent findings in other countries.<sup>60</sup> The Bank's emphasis on measurement of performance was an important part of this achievement. But the concreteness of the goals and the ease with which poor performance could be identified also seems likely to have been a factor. Compared to Bank goals in opportunity and institutionalization, performance measurement in health and education was relatively easy.

## Recommendations

5.7 Bolivia's future direction is highly uncertain. It is unclear when and how this uncertainty will be resolved. And it is unclear how, given the deep suspicions of the Bank and other donors held by some Bolivians, the Bank and other donors could best be supportive in this process. This is an uncomfortable situation for the Bank and for other aid agencies in an increasingly results sensitive environment.

5.8 The recommendations below focus on the near term, for consideration at the time the next strategy is formulated. In fashioning these recommendations, the present uncertainties concerning Bolivia's future directions mean that the Bank's strategy will need to emphasize – as did the 2004 strategy – the management of risks:

- The next strategy should have a short, twelve to twenty four month, time horizon. While the strategy should be formulated, as was the 2004 strategy, in the context of alternative medium-term scenarios, uncertainty is too great to be handled by pre-specified triggers and contingent responses. The medium-term framework should be based on the Bank's independent subjective "median value estimates" of relevant uncertain outcomes. These "estimates" should be based on a careful analysis of economic, social and political factors. With regard to social and political factors, the Bank should draw upon the expertise of independent analysts not affiliated with the Bank for this purpose, and consider the views of independent economic analysts. The same rigorous treatment of these factors should extend to the appraisal of operations supported by the Bank.<sup>61</sup>

<sup>60</sup> Operations Evaluation Department, 2004d.

<sup>61</sup> The recommendations in this paragraph concerning the qualities of a medium-term framework are also of general relevance and are not specific only to the current Bolivia situation.

If a major “clarifying event” – such as a rollback of reforms in health or education, a rollback of reforms affecting the transparency of operations in roads, customs, or internal revenue, or re-nationalization of the hydrocarbon sector should occur during the period of the strategy; this should trigger a reconsideration of the Bank’s strategy at that time.

- The next strategy, and its successors, should be formulated in the context of a time-bound plan, agreed if possible with Bolivia’s other donors and with the government, for (a) achieving sustainable fiscal performance at levels of official development assistance that are in line with Bolivia’s per capita income and policy performance; and (b) improving public sector financial management. The plan should be spelled out in the Bank’s CAS. The fiscal performance element of the plan should provide reasonable contingencies to respond to carefully delimited external shocks and natural disasters. Arrangements for monitoring policy decisions of the government and donor actions that could impact future requirements for concessional finance, and arrangements for reporting on progress in reducing aid dependence, should be spelled out in the CAS.
- The strategy should continue the efforts initiated under the 2004 strategy to provide analytical and advisory assistance on the political and social issues with which Bolivia is struggling (e.g., on hydrocarbons policy alternatives, and alternative structures for Bolivia’s planned constitutional assembly). In providing such assistance, the Bank should ensure that it is made available for evaluation and discussion as widely as possible.
- The lending program should be fully IDA funded until Bolivia’s creditworthiness for IBRD borrowing is firmly established. Support of the next steps in health and education reform would be a high priority. The prospects for effective use of development support in selected localities may also be good. There should be opportunities for effective use of development assistance in municipalities where voters are increasingly voting on the basis of their evaluation of the quality of government in their locality. However, uncertainty concerning the future architecture of the Bolivian state poses some risk to the sustainability of achievements in this area. Another possible area for assistance that could be relatively robust with regard to present uncertainties, provided that institutional reforms in the road sector are not rolled back and that reasonable macroeconomic discipline is maintained, would be highway construction.
- The Bank should not encourage Bolivia to complete another PRSP before internal agreement (in Bolivia) has been reached on hydrocarbon policy issues, on regional autonomy, and on the parameters of the constitutional assembly, and legislation reflecting these agreements has been enacted.

**Annex A: Statistical Tables**

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## Annex Table 1: Bolivia at a glance

9/15/04

	Bolivia	Latin America & Carib.	Lower-middle-income		
<b>POVERTY and SOCIAL</b>					
<b>2003</b>					
Population, mid-year (millions)	9.0	534	2,655		
GNI per capita (Atlas method, US\$)	890	3,260	1,480		
GNI (Atlas method, US\$ billions)	8.0	1,741	3,934		
<b>Average annual growth, 1997-03</b>					
Population (%)	2.2	1.5	0.9		
Labor force (%)	2.6	2.1	1.2		
<b>Most recent estimate (latest year available, 1997-03)</b>					
Poverty (% of population below national poverty line)	63	..	..		
Urban population (% of total population)	63	77	50		
Life expectancy at birth (years)	64	71	69		
Infant mortality (per 1,000 live births)	56	28	32		
Child malnutrition (% of children under 5)	8	..	11		
Access to an improved water source (% of population)	83	86	81		
Illiteracy (% of population age 15+)	13	11	10		
Gross primary enrollment (% of school-age population)	114	129	112		
Male	114	131	113		
Female	113	126	111		
<b>KEY ECONOMIC RATIOS and LONG-TERM TRENDS</b>					
	1983	1993	2002	2003	
GDP (US\$ billions)	2.7	5.7	7.8	8.0	
Gross domestic investment/GDP	13.2	16.6	14.7	11.0	
Exports of goods and services/GDP	28.3	19.1	21.9	21.5	
Gross domestic savings/GDP	17.5	7.3	9.8	8.0	
Gross national savings/GDP	16.2	7.8	11.9	9.1	
Current account balance/GDP	-5.7	-7.3	-4.4	-1.4	
Interest payments/GDP	7.7	2.2	1.3	1.9	
Total debt/GDP	152.3	75.1	62.4	59.1	
Total debt service/exports	51.2	36.7	28.4	31.9	
Present value of debt/GDP	..	..	23.1	..	
Present value of debt/exports	..	..	107.5	..	
	1983-93	1993-03	2002	2003	2003-07
<i>(average annual growth)</i>					
GDP	2.3	3.2	2.8	2.5	3.6
GDP per capita	0.0	0.8	0.5	0.5	1.8
Exports of goods and services	6.6	4.7	12.4	9.6	4.9

**Development diamond\***

Life expectancy

GNI per capita

Gross primary enrollment

Access to improved water source

— Bolivia

— Lower-middle-income group

**Economic ratios\***

Trade

Domestic savings

Investment

Indebtedness

— Bolivia

— Lower-middle-income group

	1983	1993	2002	2003
<b>STRUCTURE of the ECONOMY</b>				
<i>(% of GDP)</i>				
Agriculture	20.7	16.3	14.6	14.6
Industry	42.3	34.2	33.3	33.2
Manufacturing	12.8	18.8	15.0	14.7
Services	37.0	49.5	52.1	52.2
Private consumption	73.5	79.4	74.8	77.4
General government consumption	9.0	13.4	15.4	14.5
Imports of goods and services	24.0	28.4	26.9	24.4
	1983-93	1993-03	2002	2003
<i>(average annual growth)</i>				
Agriculture	2.8	2.4	0.6	3.0
Industry	1.4	3.3	4.2	2.5
Manufacturing	2.2	3.0	2.2	0.9
Services	2.1	3.6	2.3	3.3
Private consumption	2.9	3.2	1.5	0.9
General government consumption	-1.2	3.1	3.3	-0.4
Gross domestic investment	5.2	1.5	0.5	-22.7
Imports of goods and services	8.0	3.9	7.7	-7.1

**Growth of investment and GDP (%)**

— GDI

— GDP

**Growth of exports and imports (%)**

— Exports

— Imports

Note: 2003 data are preliminary estimates.

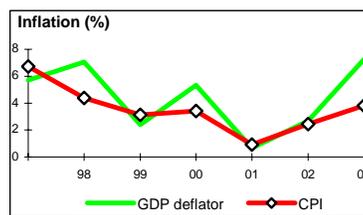
This table was produced from the Development Economics central database.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

## Bolivia

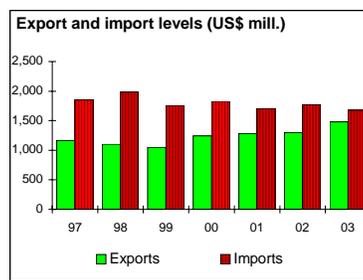
## PRICES and GOVERNMENT FINANCE

	1983	1993	2002	2003
<b>Domestic prices</b>				
<i>(% change)</i>				
Consumer prices	328.4	9.3	2.4	3.8
Implicit GDP deflator	265.2	6.6	2.7	7.2
<b>Government finance</b>				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	22.7	24.8	23.5
Current budget balance	..	3.1	-0.4	-0.6
Overall surplus/deficit	..	-6.1	-8.9	-7.9



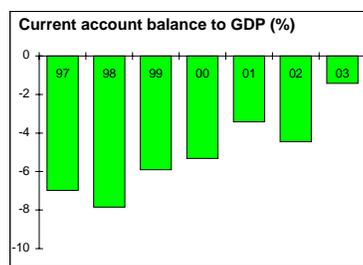
## TRADE

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total exports (fob)	755	710	1,299	1,479
Hydrocarbons-gas	33	119	111	..
Soya	58	56	68	..
Manufactures	..	219	267	..
Total imports (cif)	577	1,177	1,770	1,675
Food	..	44	75	..
Fuel and energy	4	52	83	..
Capital goods	222	456	454	..
Export price index (1995=100)	168	91	88	90
Import price index (1995=100)	57	94	99	102
Terms of trade (1995=100)	296	97	90	89



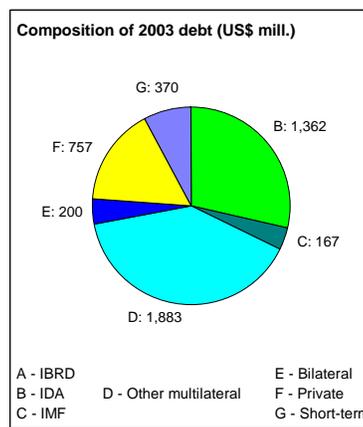
## BALANCE of PAYMENTS

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Exports of goods and services	852	894	1,534	1,720
Imports of goods and services	686	1,347	2,049	1,959
Resource balance	167	-452	-515	-239
Net income	-425	-205	-202	-262
Net current transfers	106	238	369	387
Current account balance	-152	-419	-347	-113
Financing items (net)	441	601	71	128
Changes in net reserves	-288	-182	275	-14
<b>Memo:</b>				
Reserves including gold (US\$ millions)	243	495	807	843
Conversion rate (DEC, local/US\$)	4.70E-4	4.3	7.2	7.7



## EXTERNAL DEBT and RESOURCE FLOWS

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	4,069	4,307	4,867	4,739
IBRD	213	129	0	0
IDA	92	547	1,321	1,362
Total debt service	461	334	476	593
IBRD	23	35	0	0
IDA	1	6	15	26
Composition of net resource flows				
Official grants	101	175	591	..
Official creditors	76	192	228	86
Private creditors	-30	11	-75	-185
Foreign direct investment	13	124	677	..
Portfolio equity	0	0	0	..
World Bank program				
Commitments	0	51	77	0
Disbursements	13	66	104	58
Principal repayments	10	25	7	16
Net flows	3	41	96	42
Interest payments	14	16	7	10
Net transfers	-11	25	89	32



Note: This table was produced from the Development Economics central database.

9/15/04

Annex Table 2: Bolivia - Key Economic and Social Indicators 1997-2003

Series Name	1997	1998	1999	2000	2001	2002	2003	Average 1997-2003				
								Bolivia	Latin America & Caribbean	Lower Middle Income	Peru	Ecuador
GDP growth (annual %)	5.0	5.0	0.4	2.3	1.5	2.8	2.5	2.8	1.7	4.0	2.7	2.0
GDP per capita growth (annual %)	2.5	2.6	(1.9)	(0.1)	(0.7)	0.6	(0.8)	0.3	0.2	3.0	1.1	0.3
GNI per capita, PPP (current international \$)	2,190	2,270	2,270	2,320	2,350	2,390	2,450	2,320	6,800	4,596	4,663	3,191
GNI per capita, Atlas Method (current US\$)	960	992	976	982	942	902	889	949	3598	1368	2118	1582
Agriculture, value added (% of GDP)	17.2	14.7	15.1	14.9	15.2	14.6	14.6	15.2	7.1	11.8	8.4	11.3
Industry, value added (% of GDP)	32.9	32.6	31.0	33.8	32.5	33.3	33.2	32.8	27.8	36.4	27.8	28.2
Services, etc., value added (% of GDP)	49.8	52.7	53.9	51.4	52.2	52.1	52.2	52.1	65.0	51.8	63.8	60.5
Exports of goods and services (% of GDP)	21.1	19.7	16.9	17.9	19.7	21.9	21.5	19.8	16.9	27.1	15.4	27.2
Imports of goods and services (% of GDP)	29.4	32.6	27.3	27.4	25.5	26.9	24.4	27.6	17.9	25.5	17.9	28.7
Current account balance (% of GDP)	(7.0)	(7.8)	(5.9)	(5.3)	(3.4)	(4.4)	..	(5.6)	..	..	(3.4)	(1.4)
Total debt service (% of exports of goods and services)	30.1	28.0	27.1	37.1	31.1	27.7	..	30.2	34.9	21.9	28.1	29.2
External debt (% of GNI)	67.7	67.4	68.6	70.8	59.9	64.1	..	66.4	41.1	44.6	54.1	80.8
Total reserves in months of imports	6.9	5.9	6.4	5.8	5.9	4.6	5.7	5.9	5.4	7.2	9.6	2.4
Current revenue, excluding grants (% of GDP)	17.0	17.6	16.7	17.4	17.1	..	..	17.1	20.0	17.4	16.8	..
Current expenditure, total (% of GDP)	18.5	18.6	19.5	19.6	22.9	..	..	19.8	..	..	15.9	..
Overall budget balance, excluding capital grants (% of GDP)	(3.7)	(3.4)	(3.6)	(4.6)	(7.9)	..	..	(4.7)	..	..	(1.2)	..
Gross domestic savings (% of GDP)	11.4	10.7	8.4	8.8	8.4	9.8	8.0	9.4	19.5	26.4	18.2	20.9
Inflation, consumer prices (annual %)	4.7	7.7	2.2	4.6	1.6	0.9	3.3	3.6	..	..	3.9	39.0
Literacy rate, adult total (% of people ages 15 and above)	83.4	84.1	84.8	85.4	86.7	..	..	84.9	88.2	86.8	88.7	91.0
Immunization, DPT (% of children ages 12-23 months)	58.0	56.0	78.0	80.0	81.0	81.0	..	72.3	86.0	86.4	90.0	84.8
Improved water source (% of population with access)	..	..	..	83.0	..	..	..	83.0	86.5	81.0	80.0	85.0
Improved sanitation facilities (% of population with access)	..	..	..	70.0	..	..	..	70.0	77.2	58.9	71.0	86.0
Life expectancy at birth, total (years)	61.5	..	62.1	62.6	..	63.6	..	62.4	70.2	68.7	69.2	69.5
Mortality rate, infant (per 1,000 live births)	..	..	..	62.0	..	56.0	..	59.0	29.6	33.3	35.0	25.0
School enrollment, preprimary (% gross)	36.3	44.1	44.6	46.3	46.5	..	..	43.6	59.2	32.9	56.9	66.1
School enrollment, primary (% gross)	105.8	112.5	113.4	114.8	113.6	..	..	112.0	124.0	113.9	122.4	114.6
School enrollment, secondary (% gross)	..	72.6	76.9	80.0	84.4	..	..	78.5	85.3	71.6	81.7	56.9
Population growth (annual %)	2.5	2.4	2.3	2.1	2.2	2.2	1.9	2.2	1.5	1.0	1.6	1.6
Population, total (millions)	7.9	8.1	8.3	8.4	8.6	8.8	9.0	8.4	510.7	2,586.2	26.0	12.4
Urban population (% of total)	60.4	60.9	61.4	61.9	62.4	62.9	63.4	61.9	75.3	47.8	72.8	60.3

Source: World Bank, Statistical Information Management and Analysis (SIMA), January 7, 2005

Annex Table 3a: Bolivia - List of IBRD/IDA Closed Projects, FY99-04

Proj ID	Proj Name	Approval FY	Latest DO	Latest IP	Latest Risk Rating	Proj Stat	Date, Rev Closng	Sector Board	IBRD/IDA Amt	Outcome	Sustainability	Inst Dev
P006186	BO ENV, INDUSTRY AND MINING PROJECT	1996	U	U	N	Closed	6/30/2004	Environment	11	UNSATISFACTORY	UNLIKELY	MODEST
P082700	BO Social Safety Net SAC*	2003	S	S	S	Closed	6/30/2004	Social Protection	35	MODERATELY UNSATISFACTORY	NON-EVALUABLE	MODEST
P087661	BO Emergency Economic Recovery Credit*	2004	S	U	S	Closed	6/30/2004	Economic Policy	14	MODERATELY SATISFACTORY	LIKELY	NEGLIGIBLE
P006196	BO- INTEGRATED CHILD DEV	1993	S	S	S	Closed	3/31/2004	Education	51	MODERATELY UNSATISFACTORY	NON-EVALUABLE	MODEST
P081402	BO Decentr. PSAC II*	2003	..	..	..	Closed	1/31/2004	Public Sector Governance	25	UNSATISFACTORY	UNLIKELY	NEGLIGIBLE
P060392	BO- HEALTH REFORM-APL I	1999	S	S	S	Closed	12/31/2003	Health, Nutrition and Population	25	SATISFACTORY	LIKELY	SUBSTANTIAL
P068134	BO Decentralization PSAC	2001	S	S	H	Closed	6/30/2003	Public Sector Governance	60	UNSATISFACTORY	UNLIKELY	NEGLIGIBLE
P040110	BO FIN DECEN & ACCT	1998	HS	HS	S	Closed	3/31/2003	Public Sector Governance	15	MODERATELY SATISFACTORY	LIKELY	MODEST
P057030	BO REG REFORM ADJ CREDI	1999	S	S	S	Closed	7/31/2002	Private Sector Development	40	SATISFACTORY	LIKELY	SUBSTANTIAL
P006180	RD MAINT	1992	S	S	M	Closed	6/30/2001	Transport	80	MODERATELY SATISFACTORY	NON-EVALUABLE	MODEST
P006206	RURAL WATER AND SANITATION	1996	S	S	S	Closed	6/30/2001	Water Supply and Sanitation	20	SATISFACTORY	LIKELY	SUBSTANTIAL
P055974	BO EL NINO EMERGENCY	1998	S	S	S	Closed	3/31/2001	Transport	25	SATISFACTORY	UNLIKELY	MODEST
P006205	BO JUDICIAL REFORM	1995	S	S	S	Closed	3/31/2000	Public Sector Governance	11	MODERATELY SATISFACTORY	UNLIKELY	MODEST
P006190	MUNICIPAL DEV	1994	S	S	M	Closed	12/31/1999	Urban Development	42	SATISFACTORY	UNLIKELY	SUBSTANTIAL
P006202	RURAL COMMUNITIES DE	1996	S	S	M	Closed	8/31/1999	Rural Sector	15	SATISFACTORY	LIKELY	SUBSTANTIAL
P006191	POWER SCTR REF TA &	1996	HS	S	N	Closed	6/30/1999	Energy and Mining	5	MODERATELY SATISFACTORY	LIKELY	MODEST
P006173	CAPITALIZATION PROG	1996	S	S	M	Closed	2/27/1999	Private Sector Development	50	HIGHLY SATISFACTORY	LIKELY	SUBSTANTIAL
P006178	HYDROC.SEC.REF&CAPIT	1996	HS	HS	N	Closed	12/31/1998	Energy and Mining	11	HIGHLY SATISFACTORY	LIKELY	SUBSTANTIAL
P006200	SOC INVEST FUND II	1993	S	S	M	Closed	12/31/1998	Social Protection	40	MODERATELY SATISFACTORY	NON-EVALUABLE	MODEST
P034606	FIN MRKTS & PENS REF	1996	S	S	M	Closed	12/31/1998	Financial Sector	9	SATISFACTORY	LIKELY	SUBSTANTIAL
P037005	REGULATORY REF & CAP	1995	S	S	S	Closed	12/15/1998	Public Sector Governance	15	SATISFACTORY	LIKELY	SUBSTANTIAL
P006188	TECHNOLOGY DEV	1991	U	U	S	Closed	10/31/1998	Rural Sector	21	UNSATISFACTORY	UNCERTAIN	NEGLIGIBLE

Source: World Bank SAP Business Warehouse Table 4.a.3 and Table 2a.1, January 7, 2005. \*Evaluation not finalized.

Annex Table 3b: Bolivia - List of IBRD/IDA Approved Projects, FY99-04

Proj ID	Proj Name	Approval FY	Latest DO	Latest IP	Latest Risk Rating	Proj Stat	Date, Rev Closng	Sector Board	IBRD/IDA Amt
P082781	BO First Programmatic Bank and Corporate	2004	S	S	H	Active	6/30/2006	Financial Sector	30
P087661	BO Emergency Economic Recovery Credit	2004	S	U	S	Closed	6/30/2004	Economic Policy	14
P087841	BO-Social Sector Programmatic Credit	2004	S	S	S	Closed	12/31/2004	Health, Nutrition and Population	25
P073367	BO Decent Infras for Rur Transformation	2003	S	U	H	Active	12/31/2007	Energy and Mining	20
P081402	BO Decentr. PSAC II	2003	..	..	..	Closed	1/31/2004	Public Sector Governance	25
P082700	BO Social Safety Net SAC	2003	S	S	S	Closed	6/30/2004	Social Protection	35
P068968	BO Road Rehab. & Maintenance Project	2002	S	S	M	Active	12/31/2007	Transport	77
P074819	BO Supplemental Land Administration	2002	..	..	..	Active	..	Environment	6
P057416	BO-INDIGENOUS PEOPLES DEVT PROJECT (LIL)	2001	S	S	H	Active	5/27/2005	Social Development	5
P068134	BO Decentralization PSAC	2001	S	S	H	Closed	6/30/2003	Public Sector Governance	60
P074212	BO-Health Sector Reform APL II	2001	S	S	S	Active	6/30/2006	Health, Nutrition and Population	35
P065902	BO HYDROCARBON SECT. SOC. & ENVIRM.(LIL)	2000	U	U	S	Active	4/30/2005	Energy and Mining	5
P055230	BO ABAPO-CAMIRI HIGHWAY	1999	S	S	M	Active	6/30/2005	Transport	88
P057030	BO REG REFORM ADJ CREDI	1999	S	S	S	Closed	7/31/2002	Private Sector Development	40
P060392	BO- HEALTH REFORM-APL I	1999	S	S	S	Closed	12/31/2003	Health, Nutrition and Population	25
P062790	BO INST REF (OLD CIV S)	1999	S	U	H	Active	6/30/2005	Public Sector Governance	32
P064228	REG REF ADJ (IDA REF	1999	..	..	..	Closed	..	Private Sector Development	2

Source: World Bank SAP Business Warehouse Table 4.a.3 and Table 2a.1, January 7, 2005

**Annex Table 4: Bolivia – Economic and Sector Work**

<i>Title</i>	<i>Date</i>	<i>Report No.</i>	<i>Document Type</i>
<b>Country Assistance Strategies</b>			
Bolivia - Country Assistance Strategy	5/21/1998	17890	Country Assistance Strategy Document
Bolivia - Country Assistance Strategy Progress Report	5/10/2001	22162	CAS Progress Report
Bolivia - Country Assistance Strategy	1/8/2004	26838	Country Assistance Strategy Document
<b>Economic Reports</b>			
Bolivia - Implementing the Comprehensive Development Framework	5/21/1999	19326	Economic Report
Bolivia - Public Expenditure Review	6/14/1999	19232	Economic Report
<b>Sector Reports</b>			
Bolivia - Poverty Diagnostic 2000	6/28/2002	20530	Sector Report
Bolivia - Poverty and Nutrition in Bolivia	8/20/2002	24691	Sector Report
Bolivia - From Patronage to a Professional State - Bolivia Institutional and Governance Review, 2 Vol.	8/25/2000	20115	Sector Report
<b>Other Reports</b>			
The Benefits of Early Child Development Programs: An Economic Analysis 2 Vol.	1/1/1998	18992	Working Paper
Integrating Social Concerns into Private Sector Decisionmaking—A Review of Corporate Practices in the Mining, Oil, and Gas Sectors	1/31/1998	WDP384	Publication
Privatization and Emerging Equity Markets	3/31/1998	17729	Publication
Setting Priorities for Environmental Management: An Application to the Mining Sector in Bolivia	3/31/1998	WTP398	Publication
Designing Rules for Demand-Driven Rural Investment Funds: The Latin American Experience	5/31/1998	WTP407	Publication
Estudio sobre las instituciones locales en Bolivia: panorama general y descripción, muestro y recolección de datos, y encuestas (Spanish)	8/31/1998	22807	Working Paper (Numbered Series)
Total Strangers or Soul Mates? Antidumping and Competition Policies in Latin America and the Caribbean	8/31/1998	WPS1958	Policy Research Working Paper
The Private Sector and Development: Five Case Studies / El sector privado y el desarrollo: cinco estudios de casos—resultados en el terreno (Spanish)/ Le secteur prive et le developpement: cinq etudes de cas—resultats sur le terrain (French)	9/30/1998 9/1/1998 7/1/1998	23471	Publication
The Role of Choice in the Transition to a Funded Pension System	9/30/1998	20109	Working Paper (Numbered Series)
The World Bank Economic Review 12(3)	9/30/1998	18734	Publication
Grassroots Organizations and Local Development in Bolivia: A Study of the Municipalities of Tiahuanacu, Mizque, Villa Serrano, and Charagua /Organizaciones de base y desarrollo local en Bolivia: estudio de los municipios de Tiahuanacu, Mizque, Villa Serrano, y Charagua (Spanish)	10/1/1998 10/31/1998	22808	Working Paper (Numbered Series)
Market-Based Instruments for Environmental Policymaking in Latin America and the Caribbean—Lessons from Eleven Countries	11/30/1998	WDP381	Publication
Supervising Mandatory Funded Pension Systems: Issues and Challenges	12/31/1998	20113	Working Paper (Numbered Series)
Community Participation in Education: What Do We Know?	1/1/1999	24670	Working Paper
Interactive Radio Instruction: Impact, Sustainability, and Future Directions	1/1/1999	19766	Working Paper (Numbered Series)
Qualities of Caring: Good Practices in Infant and Toddler Group Care	1/31/1999	22924	Departmental Working Paper
Curbing corruption: Toward a Model for Building National Integrity	2/28/1999	19017	Publication

<i>Title</i>	<i>Date</i>	<i>Report No.</i>	<i>Document Type</i>
An Environmental Study of Artisanal, Small, and Medium Mining in Bolivia, Chile, and Peru	5/31/1999	WTP429	Publication
Early Childhood Development in Latin America and the Caribbean: List of Projects with World Bank Support	9/30/1999	22922	Working Paper
Labor Market Flexibility in Thirteen Latin American Countries and the United States: Revisiting and Expanding Okun Coefficients	9/30/1999	19668	Publication
Designing Pro-poor Water and Sewer Concessions: Early Lessons from Bolivia	11/30/1999	WPS2243	Policy Research Working Paper
Corrupt Cities: A Practical Guide to Cure and Prevention	1/1/2000	20922	Publication
Microfinance, Risk Management, and Poverty	3/1/2000	27900	Working Paper
The Local Level Institutions Study: Local Institutions, Poverty and Household Welfare in Bolivia	4/30/2000	22813	Working Paper (Numbered Series)
Promoting Good Local Governance Through Social Funds and Decentralization	5/1/2000	30354	Working Paper
Socio-economic Differences in Health, Nutrition, and Population in Bolivia	5/1/2000	30552	Working Paper
Reproductive Health and Health Sector Reform: Linking Outcomes to Action	5/31/2000	21026	Departmental Working Paper
Evaluating the Impact of Development Projects on Poverty: A Handbook for Practitioners	5/31/2000	20745	Publication
Fiscal Constraints, Collection Costs, and Trade Policies	6/30/2000	WPS2366	Policy Research Working Paper
Poverty and Policy in Latin America and the Caribbean	6/30/2000	WTP467	Publication
Public Policy for the Private Sector	9/1/2000	30634	Working Paper
Attrition in Longitudinal Household Survey Data—Some Tests for Three Developing-Country Samples	9/30/2000	WPS2447	Policy Research Working Paper
Large Mines and the Community—Socioeconomic and Environmental Effects in Latin America, Canada and Spain	1/1/2001	23606	Publication
Does Decentralization Increase Responsiveness to Local Needs? Evidence from Bolivia	1/31/2001	WPS2516	Policy Research Working Paper
The Challenge of Urban Government Policies and Practices	1/31/2001	21642	Publication
Measuring the Impact of Minimum Wages: Evidence from Latin America	4/30/2001	WPS2597	Policy Research Working Paper
Does Social Capital Help the Poor? A Synthesis of Findings from the Local Level Institutions Studies in Bolivia, Burkina Faso, and Indonesia	6/30/2001	22814	Working Paper (Numbered Series)
South-South Regional Integration and Industrial Growth: The Case of the Andean Pact	6/30/2001	WPS2614	Policy Research Working Paper
Social Services Delivery Through Community-Based Projects/ Prestación de servicios sociales mediante proyectos de base comunitaria (Spanish)	7/31/2001 8/1/2001	23307	Working Paper (Numbered Series)
Local Institutions, Poverty, and Household Welfare in Bolivia	7/31/2001	WPS2644	Policy Research Working Paper
Identifying Class Size Effects in Developing Countries: Evidence from Rural Schools in Bolivia	11/30/2001	WPS2711	Policy Research Working Paper
The World Bank in Action: Stories of Development	1/1/2002	24928	Working Paper
Health Sector Reform in Bolivia: A Decentralization Case Study	1/1/2002	27929	Publication
The World Bank Economic Review 16 (2)	1/1/2002	26452	Publication
Civil Service Reform: Strengthening World Bank and IMF Collaboration	6/30/2002	24494	Publication
Indigenous Students in Bolivian Primary Schools: Patterns and Determinants of Inequities	8/27/2002	25011	Working Paper
Aligning Assistance for Development Effectiveness: Promising Country Experience	9/29/2002	27778	Working Paper
Poverty and Nutrition in Bolivia	12/31/2002	25581	Publication
Toward Country-Led Development: A Multi-Partner Evaluation of the Comprehensive Development Framework/ Desarrollo dirigido por los propios países: evaluación conjunta del Marco Integral de Desarrollo (Spanish)/ Vers un développement pilote par les pays : une évaluation par plusieurs partenaires du cadre de développement intégré (French)	1/1/2003 1/1/2003 7/1/2003	27149	Publication
Reducing Maternal Mortality—Learning from Bolivia, China, Egypt,	4/30/2003	25953	Publication

<i>Title</i>	<i>Date</i>	<i>Report No.</i>	<i>Document Type</i>
Honduras, Indonesia, Jamaica, and Zimbabwe The Bolivian Education Reform 1992-2002: Case Studies in Large-Scale Education Reform	11/30/2003	27855	Working Paper (Numbered Series)
Does Infrastructure Reform Work for the Poor? A Case Study on the Cities of La Paz and El Alto in Bolivia	12/1/2003	WPS3177	Policy Research Working Paper
Customs Modernization Initiatives: Case Studies	1/1/2004	30112	Publication
Has Private Participation in Water and Sewerage Improved Coverage? Empirical Evidence from Latin America	11/1/2004	WPS3445	Policy Research Working Paper
<i>Source:</i> World Bank, ImageBank, July 13, 2005			

**Annex Table 5: Projects at Risk**

Country	# Proj	Net Comm Amt	# Proj At Risk	% At Risk	Comm At Risk	% Commit at Risk
Bolivia	11	450.5	4	36.4	116.3	25.8
Ecuador	8	293.1	5	62.5	135.9	46.4
Peru	12	323.1	2	16.7	62.0	19.2
LCR	261	17,910.9	54	20.7	3,729.6	20.8
World Bank	1,326	91,247.0	237	17.9	15,619.9	17.1

Source: World Bank SAP Business Warehouse Table 3c.4, April 6, 2005

**Annex Table 6: Comparative Bank Budget by Cost Category (in USD thousands) 1998-2004**

Country/Region	Cost Category	Year								1998- 2004 (percent)
		1998	1999	2000	2001	2002	2003	2004		
Bolivia	ESW	236	529	773	449	341	923	497	3,748	17
	Lending	997	752	845	585	561	763	845	5,348	24
	Project	1,215	1,369	1,272	1,032	1,219	1,301	1,477	8,885	40
	Supervision									
	Other	557	115	1,242	1,058	505	432	418	4,328	19
	TOTAL	3,005	2,765	4,132	3,124	2,626	3,419	3,237	22,309	100
LCR	ESW	7,896	11,184	14,432	11,739	19,438	22,433	23,942	111,064	16
	Lending	18,446	15,736	20,478	15,818	19,947	21,306	25,388	137,119	20
	Project	21,385	24,046	27,124	23,726	26,600	28,192	30,654	181,727	27
	Supervision									
	Other	4,602	4,442	37,757	41,299	50,177	54,484	57,735	250,496	37
	TOTAL	52,329	55,408	99,791	92,582	116,162	126,415	137,719	680,406	100

Source: World Bank, SAP Business Warehouse R.M. Tables 2.3-2.5, January 7, 2005

**Annex Table 7: Bolivia – World Bank’s Senior Management**

Year	Vice President	Country Director	Resident Representative/ Country Manager
1998	Shahid Javed Burki	Isabel Guerrero	Deborah Bateman, Res. Rep.
1999	David de Ferranti	Isabel Guerrero	Deborah Bateman, Res. Rep.
2000	David de Ferranti	Isabel Guerrero	John Newman, Res. Rep.
2001	David de Ferranti	Isabel Guerrero	John Newman, Res. Rep.
2002	David de Ferranti	Marcelo Giugale	John Newman, Res. Rep.
2003	David de Ferranti	Marcelo Giugale	John Newman, Country Manager
2004	David de Ferranti	Marcelo Giugale	Connie Luff, Country Manager

Source: World Bank Group Directory

**Annex Table 8: World Bank Commitments by Sector Board FY1998-FY2004**

Sector Board	1998	1999	2000	2001	2002	2003	2004	Total
Transport	25.0	88.0			77.0			190.0
Public Sector Governance	15.0	32.0		60.0		25.0		132.0
Health, Nutrition and Population		25.0		35.0			25.0	85.0
Education	75.0							75.0
Private Sector Development	22.9	41.8						64.7
Rural Sector	62.8							62.8
Social Protection						35.0		35.0
Financial Sector							30.0	30.0
Energy and Mining			4.8			20.0		24.8
Economic Policy							14.0	14.0
Environment					6.0			6.0
Social Development				5.0				5.0
<b>Total</b>	<b>200.7</b>	<b>186.8</b>	<b>4.8</b>	<b>100.0</b>	<b>83.0</b>	<b>80.0</b>	<b>69.0</b>	<b>724.3</b>

Source: World Bank, SAP Business Warehouse, Table 2a.3, January 7, 2005

Notes: Values include IBRD and IDA commitments and grant amount

Annex Table 9: Bolivia – Millenium Development Goals

Millennium Development Goals					
	1990	1994	1997	2000	2003
<b>Goal 1: Eradicate extreme poverty and hunger</b>					
Percentage share of income or consumption held by poorest 20%	..	..	..	4	..
Population below \$1 a day (%)	5.7	..	20.4	14.4	..
Population below minimum level of dietary energy consumption (%)	..	..	25	..	27
Poverty gap ratio at \$1 a day (incidence x depth of poverty)	0.8	..	9.7	5.3	..
Poverty headcount, national (% of population)	..	..	63.2	62.7	..
Prevalence of underweight in children (under five years of age)	11.1	14.9	7.6	..	..
<b>Goal 2: Achieve universal primary education</b>					
Net primary enrollment ratio (% of relevant age group)	90.8	..	96	95	95.1
Primary completion rate, total (% of relevant age group)	71	..	85	98	101
Proportion of pupils starting grade 1 who reach grade 5	..	..	79.4	78	..
Youth literacy rate (% ages 15-24)	92.6	94	95	95.8	..
<b>Goal 3: Promote gender equality and empower women</b>					
Proportion of seats held by women in national parliament (%)	9	..	7	12	19
Ratio of girls to boys in primary and secondary education (%)	90.2	..	95.5	97.5	97.9
Ratio of young literate females to males (% ages 15-24)	92.5	93.9	94.8	95.5	..
Share of women employed in the nonagricultural sector (%)	35.6	35.3	36.6	37	37.3
<b>Goal 4: Reduce child mortality</b>					
Immunization, measles (% of children ages 12-23 months)	53	64	51	74	64
Infant mortality rate (per 1,000 live births)	85	70	..	59	53
Under 5 mortality rate (per 1,000)	120	92	..	75	66
<b>Goal 5: Improve maternal health</b>					
Births attended by skilled health staff (% of total)	43.2	47.1	59.3	68.8	65
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	420	..
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b>					
Contraceptive prevalence rate (% of women ages 15-49)	30.3	46.9	48.7	..	58
Incidence of tuberculosis (per 100,000 people)	289.9	268.3	253.1	238.8	225.3
Number of children orphaned by HIV/AIDS	..	..	..	..	..
Prevalence of HIV, total (% of population aged 15-49)	..	..	..	0.1	0.1
Tuberculosis cases detected under DOTS (%)	..	39.6	72.6	72.3	71.1
<b>Goal 7: Ensure environmental sustainability</b>					
Access to an improved water source (% of population)	72	..	..	..	85
Access to improved sanitation (% of population)	33	..	..	..	45
Access to secure tenure (% of population)	..	..	..	..	..
CO2 emissions (metric tons per capita)	0.8	1.2	1.6	1.3	..
Forest area (% of total land area)	50.4	..	..	48.9	..
GDP per unit of energy use (2000 PPP \$ per kg oil equivalent)	5.1	4.6	4.1	4	4.8
Nationally protected areas (% of total land area)	..	..	..	..	13.4
<b>Goal 8: Develop a global partnership for development</b>					
Aid per capita (current US\$)	82.1	77.8	89.5	57.1	105.5
Debt service (% of exports)	34	25	23	18	20
Fixed line and mobile phone subscribers (per 1,000 people)	27.6	34.1	64.7	133.2	224.4
Internet users (per 1,000 people)	..	0.7	4.5	14.6	32.4
Personal computers (per 1,000 people)	2.2	3	3.9	17.1	22.8
Unemployment, youth female (% of female labor force ages 15-24)	8.7	7	3.9	10.4	..
Unemployment, youth male (% of male labor force ages 15-24)	3.1	5.2	3.2	7	..
Unemployment, youth total (% of total labor force ages 15-24)	4.5	6.1	3.5	8.5	..
<b>Other</b>					
Fertility rate, total (births per woman)	4.8	..	4.2	..	3.7
GNI per capita, Atlas method (current US\$)	740	830	970	990	900
GNI, Atlas method (current US\$) (billions)	4.9	6.1	7.6	8.3	7.9
Gross capital formation (% of GDP)	12.5	14.4	19.6	18.3	11.1
Life expectancy at birth, total (years)	58.3	..	62	..	64.1
Literacy rate, adult total (% of people ages 15 and above)	78.1	81.3	83.4	85.4	..
Population, total (millions)	6.7	7.3	7.8	8.3	8.8
Trade (% of GDP)	46.7	48.9	50.5	45.3	48.8

Source: World Development Indicators database, April 2005

Figures in italics refer to periods other than those specified.

**Annex B: List of People Met on Mission in Bolivia  
(and World Bank Staff Interviewed)**

***Government and State Entity Officials***

Fernando Antezana	Minister of Health
Luis Arnal	Vice Minister of Public Investment and External Finance
Celestino Choque	Viceminister of Primary Education
Mauricio Alcérreca	Chief, Performance Measurement, Ministry of Education
Marisabel Céspedes	Director, Centro Boliviano de Investigación y Acción Educativa
Maria Soledad Quiroga	Minister of Education
Cristina Pareja	Consultant, Ministry of Education
José Luis Pérez	Viceminister of Budget and Accounting
Jaime F. Sosa Mercado, Dr.	Contraloría General de la Republica, General Controller
Silvia Alba Mercado	Contraloría General de la Republica, External Audit
Susy Raña	Contraloría General de la República, Internal Audit
Ivette Lastra Morales	Contraloría General de la Republica
Javier Diez de Medina V.	Contraloría General de la Republica, Sub-Controller
Violeta Penaranda de Arce	Directora General, Dirección General de Sistemas de Administración Gubernamental
German Molina	Contraloría General de la República, SIGMA
Rodrigo Agreda	President, Customs Service, Bolivia
Victor Hugo Bacarreza	Director General of External Finance, VIPFE
Marcelo Barron Arce	Viceministerio de Inversión Pública y Financiamiento Externo (VIPFE)
Claudia Cardenas	Viceministerio de Inversión Pública y Financiamiento Externo (VIPFE)
Rodrigo Castro	Viceministerio de Inversión Pública y Financiamiento Externo (VIPFE)
Walter Guevara	Superintendent of Civil Service
Roberto Rivero	Unidad de Análisis de Políticas Sociales y Económicas (UDAPE)
Wilson Jimenez	Unidad de Análisis de Políticas Sociales y Económicas (UDAPE)
José Maria Backovic	Presidente, Servicio Nacional de Caminos (SNC)
Guillermo Aponte	Superintendent, Superintendencia de Pensiones, Valores y Seguros
Luis Tejada Ponce	Superintendencia de Pensiones, Valores y Seguros
Guillermo Aponte Reyes Ortiz	Superintendente de Pensiones, Valores y Seguros (SPVS)
Mario Costa	Dirección General de Contaduría Pública

***International Donors***

Stefan Zeeb	Director, KfW-Bolivia
Gunter Schulz-Heiss	Sector Coordinator, KfW
Liliana Ayalde	Director, USAID-Bolivia
Sonia Aranibar	USAID-Bolivia
William Young	Director, Canadian International Development Agency (CIDA), Bolivia
Gustavo Bracamonte	Canadian International Development Agency (CIDA), Bolivia
Carlos Melo	Resident Representative, Inter-American Development Bank, Bolivia
Akihiro Tsukamoto	Japan International Cooperation Agency (JICA), Bolivia
Antonio Molpeceres	Resident Representative, UNDP, Bolivia
Gonzalo Calderon	Manager, Projects Unit, UNDP - Bolivia
Nick York	Department for International Development
Michael Flint	Team Leader, Evaluation of DFID Country Programs
Marina Cárdenas	Project Manager, DFID Abrir Salud Project Office
Oscar Antezana	Economic Advisor, DFID, Bolivia
Robert Petri	Chief of Cooperation, Netherlands Embassy

***International Donors (cont'd)***

Janette Trujillo Cortez	Gender Coordinator, Netherlands Embassy
Andrew Standley	Ambassador, European Union
Guillermo Vivado	Economic and Commercial Section, EU Bolivia
Mogens Pedersen	Ambassador, Denmark
Willem Cornelissen	Netherlands
Takuma Momoi	Second Secretary, Embassy of Japan
Annaliese Backer	Embassy of Belgium
Nicholas van Niekerk	Dutch Ministry of Foreign Affairs
Torsten Wetterblad	Head of Cooperation, Embassy of Sweden, La Paz, Bolivia
Peter de Haan	Sector Expert, Decentralization and Institutional Development, Embassy of The Netherlands, La Paz

***Business Leaders and Bankers***

Pablo Bedoya Saenz	Gerente General, Banco Nacional de Bolivia
Jose L. Silva	Gerente General, Banco Santa Cruz
David Espinoza Torrico	Gerente de Operaciones Internacionales, Banco Central de Bolivia
Alberto Valdes	Gerente Nacional de Finanzas y Asuntos Internacionales, Banco Mercantil, S.A.
Peter Tschumi	Director, Agencia Suiza para el Desarrollo y la Cooperación (COSUDE), Bolivia
José Luis Silva	General Manager and Ricardo Mertens, Manager, Finance Division, Banco de Santa Cruz
Mario Cirbian	Gerente General a.i., Camara de Industria y Comercio de Santa Cruz (CAINCO)
Eduardo Zegada	President, Servicio de Impuestos Nacionales, Bolivia
Herbert Muller	General Manager, Muller & Associates (former Minister of Economic Development)
Raúl Kieffer	President, Cámara Boliviana de Hidrocarburos
Jaime A. Otega	Director, Aduanas
Eduardo Zegada C.	Presidente Ejecutivo, Impuestos Nacionales
Rolando Lopez Lopez	Gerente General, Impuestos Nacionales
José Carrera, Director	Andean Development Corporation (CAF), Bolivia
Carlos Toranzo	Instituto Latinoamericano de Investigaciones Sociales (ILDIS), La Paz
Tom Kruse	Centro de Estudios para el Desarrollo Laboral y Agrario (CEDLA)
Brett Wiggs, President	Transredes S.A.
Ricardo Martens Olmos	Gerente de Finanzas, Banco Santa Cruz
Fernando González Quintanilla	Transredes S.A.

***Other Private and Civil Society***

Eric Sanjines	Former Minister of Education, Bolivia
Jorge Quiroga	Former President of the Republic of Bolivia
Alberto Valdes	Former Vice Minister, Public Investment and External Finance, Ministry of Finance
Guillermo Cuentas	Former Minister of Health, Bolivia
Carmen de Urioste	Former Curriculum Developer, Ministry of Education
Amalia Anaya	Former Minister of Education
Tito Hoz de Vila	Former Minister of Education

***Other Private and Civil Society (cont'd)***

Jacques Trigo	Former President of the Central Bank, Former Minister of Finance, Bolivia
Guillermo (Chacho) Justiniano	Former Minister (Sanchez de Lozada's Government)
Nicolás Peña	Former Director, Unidad de Productividad y Competitividad
Claude Besse	Former Superintendent, Superintendencia General del Sistema de Regulación Sectorial
Claude Besse Arze	Former Superintendent, Consultant
Walter Nuñez	Former Minister of Agriculture
Walker San Miguel	President, College of Lawyer, La Paz, Bolivia
Guillermo Pou Munt	Public Administration Consultant
Noel Aguirre	Foro Educativo, Bolivia
Cinthia Saravia	Director, Programa de Coordinación en Salud Integral (PROCOSI) (donor health network)
Elena Kavlin	Businesswoman, Santa Cruz
Ever Rojas	Businessman, Santa Cruz
Ana Rosa Angulo	Asesora en Gestión Local, SNV, Santa Cruz, Bolivia
Edith Carpio	SNV, Santa Cruz, Bolivia
Carlos Soria Galvarro T	Coordinador, Programa de Apoyo a la Democracia Municipal (PADEM), NGO
Fernando Dick	GNTF (transparencia)
Isaías Rojas Jaimes	Comité de Vigilancia, Asociación de Comités de Vigilancia de Santa Cruz (ACOVICRUZ)
Maria Luisa Talavera	Professor of Education, UMSA
David Rojas	Human Resources, Prefectura, Santa Cruz
Susan Engel	Asesora, Fundación Pueblo, Santa Cruz

***IMF***

Simon Cueva	Resident Representative, International Monetary Fund, Bolivia
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***World Bank***

Connie Luff	Country Manager, Bolivia, World Bank
Nicole Nucinkis	Education Reform Project, Consultant
Christian Pereira	Health Reform Project
Aurelio Menendez	Sr. Transport Economist, LCSFT
Andrea L. J. Silverman	Sr. Institutional Dev. Specialist, LCSER
Susan Goldmark	Sector Manager, LCSFE
Hermann A. von Gersdorff	Sector Manager, ECSHD
Dana Rysankova	Sr. Economist, LCSFE
David F. Varela	Country Manager, LCCVE
Yira Mascaro	Sr. Financial Economist
Tonci Bakovic	Principal Energy Specialist, CICDR
Ronald Myers	Sector Manager, LCSPS
Augusto de la Torre	Sr. Regional Financial Sector Adviser, LCRCE
Alberto Leyton	Sr. Public Sector Specialist
Yasuhiko Matsuda	Sr. Public Sector Specialist, LCSPS
John Newman	Country Manager, LCCPE
David Tuchsneider	Rural Development Specialist, LCSER
Edgardo Mosqueira Medina	Sr. Public Sector Specialist, LCSPS
Marianela Zeballos	Sr. Operations Officer

***World Bank (cont'd)***

Marcelo Giugale

Isabel M. Guerrero

Carlos Mollinedo-Trujillo

Sergey S. Soares

Country Director, LCC6A

Country Director, LCC1C

Country Economist, LCSPE

Sr. Education Economist, LCSHE

### Annex C: Guide to OED's Country Evaluation Rating Methodology

1. This methodological note describes the key elements of OED's country assistance evaluation (CAE) methodology.<sup>62</sup>

*CAEs rate the outcomes of Bank assistance programs, not the Clients' overall development progress*

2. A Bank assistance program needs to be assessed on how well it met its particular objectives, which are typically a sub-set of the Client's development objectives. If a Bank assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a Client's development by donors, stakeholders, and the government itself. In CAEs, OED rates only the outcome of the Bank's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

3. The experience gained in CAEs confirms that Bank program outcomes sometimes diverge significantly from the Client's overall development progress. CAEs have identified Bank assistance programs which had:

- satisfactory outcomes matched by good Client development;
- unsatisfactory outcomes in Clients which achieved good overall development results, notwithstanding the weak Bank program; and,
- satisfactory outcomes in Clients which did not achieve satisfactory overall results during the period of program implementation.

#### *Assessments of assistance program outcome and Bank performance are not the same*

4. By the same token, an unsatisfactory Bank assistance program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

5. OED measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank's lending interventions, the scope, quality and follow-up of diagnostic work and other AAA activities, the consistency of the Bank's lending with its non-lending work and with its safeguard policies, and the Bank's partnership activities.

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<sup>62</sup> In this note, *assistance program* refers to products and services generated in support of the economic development of a Client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

### ***Rating Assistance Program Outcome***

6. In rating the outcome (expected development impact) of an assistance program, OED gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, did the Bank do the right thing, and did it do it right. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. OED's task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

7. For each of the main objectives, the CAE evaluates the relevance of the objective, the relevance of the Bank's strategy towards meeting the objective, including the balance between lending and non-lending instruments, the efficacy with which the strategy was implemented and the results achieved. This is done in two steps. The first is a top-down review of whether the Bank's program achieved a particular Bank objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank, other donors, the Government and exogenous factors.

8. Evaluators also assess the degree of Client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

## Ratings Scale

9. OED utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

<i>Highly Satisfactory:</i>	The assistance program achieved at least acceptable progress toward all major relevant objectives, <u>and</u> had best practice development impact on one or more of them. No major shortcomings were identified.
<i>Satisfactory:</i>	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.
<i>Moderately Satisfactory:</i>	The assistance program achieved acceptable progress toward <i>most</i> of its major relevant objectives. No major shortcomings were identified.
<i>Moderately Unsatisfactory:</i>	The assistance program did <i>not</i> make acceptable progress toward <i>most</i> of its major relevant objectives, <i>or</i> made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
<i>Unsatisfactory:</i>	The assistance program did not make acceptable progress toward <i>most</i> of its major relevant objectives, <i>and</i> either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
<i>Highly Unsatisfactory:</i>	The assistance program did not make acceptable progress toward <i>any</i> of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

10. The **institutional development impact (IDI)** can be rated as: *high, substantial, modest, or negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- the soundness of economic management;
- the structure of the public sector, and, in particular, the civil service;
- the institutional soundness of the financial sector;
- the soundness of legal, regulatory, and judicial systems;
- the extent of monitoring and evaluation systems;
- the effectiveness of aid coordination;
- the degree of financial accountability;
- the extent of building NGO capacity; and,
- the level of social and environmental capital.

11. **Sustainability** can be rated as *highly likely*, *likely*, *unlikely*, *highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

- technical resilience;
- financial resilience (including policies on cost recovery);
- economic resilience;
- social support (including conditions subject to safeguard policies);
- environmental resilience;
- ownership by governments and other key stakeholders;
- institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and,
- resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

**Annex D: Regional Management Comments**  
**March 22, 2005**

We welcome this OED Country Assistance Evaluation of the World Bank Group's (WBG) assistance to Bolivia between July 1, 1998 and June 30, 2004 (i.e., Bank FYs 1999-04). As correctly stated in the CAE, it covers "one of the most difficult period Bolivia has faced since the mid-1980s." While the Region agrees with some of the CAE conclusions and recommendations, it disagrees with the ratings both in overall strategy as well as with the more detailed outcomes in terms of Opportunity, Equity and Institutionalality.

Firstly, the CAE suggests that progress toward a number of the specific objectives of Bank support did not translate into satisfactory development impacts due to identified "risks" that materialized during implementation of the strategy. The CAE mentions that had the Bank appraised these risks realistically and addressed them through the appropriate selection of objectives and instruments, the development impact of Bank assistance could have been greater. We agree that the shocks Bolivia faced after FY99 did not allow the economy to reach the expected quantitative outcomes, but firmly disagree with the CAE's judgment of WBG selection of objectives and instruments. In fact, through its choice of program and operational design the WBG played an important role in preventing Bolivia from losing the gains achieved before FY99, including GDP growth. The results framework put forward in the 1998 CAS comprised 4 indicators: poverty gap, malnutrition, infant mortality and child mortality. In spite of slower than projected growth, there was progress in all of these indicators. This achievement reflected in part Bank supported reforms and the institution's capacity to adjust the program to changing circumstances and to protect past investments.

Secondly, the CAE states that during the review period "...[g]rowth rates had fallen as a result of crises in Brazil and Argentina, natural disasters, eradication of illegal coca production and social unrest." This is correct; however, the CAE underestimates the massive impact of these shocks—including that of the international financial crises of late 1998. For example, coca eradication alone produced a shock equivalent to a reduction of the current account deficit of around 4 percent of GDP annually coupled with broad social unrest.<sup>1</sup> In judging growth rate performance, the CAE fails to compare the growth performance of Bolivia with that of other countries in the region. In Argentina, Colombia, Peru, Uruguay and Venezuela, the impact of many of these shocks was more marked than in Bolivia.<sup>2</sup> Indeed, Bolivia's GDP growth during this period was actually in line with Chile's, the region's top reformer; arguably a tribute to the structural reforms that the Bank's assistance supported. Thus, against this background, it would be hard to dispute against the fact that at a time when private domestic investment plummeted, private foreign investment declined and social tensions rose, the assistance of external financing helped keep the economic decline from being any larger and protected the hard gained expenditure space allocated to the social sectors. Had the WBG reduced its lending during those years, the signaling effect of such an action could have created a very different and considerably worse outcome - with possibly economic collapse and more acute social unrest. Unfortunately, the CAE offers no practical insight into what the Region believes to be a critical counterfactual to evaluate WBG assistance against, namely: What would have been the outcome if the Bank had not acted in the way that it did?

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<sup>1</sup> IMF evaluation of IMF's Bolivia program.

<sup>2</sup> Table 3 in Calvo and Talvi (2004), Sudden Stop, Financial Factors and Economic Collapse in Latin America: Learning from Argentina and Chile. See also WDR 2004

Thirdly, the CAE mentions that the WBG did not reassess risks during the course of this difficult period. The Region believes this statement contradicts the several adjustments the program actually underwent to face the shifting political and economic environment, including the flexible short-term program presented in the 2004 CAS. Perhaps the earliest indication that reassessments were made during this period came shortly after the CDF program was announced in Bolivia. Despite the high visibility that this announcement generated, the WBG dropped a Roads project and a Judicial Reform program because the institutional conditions were not favorable. The Institutional Reform Project contained explicit performance indicators to trigger program reviews and calibrate disbursements, and a subsequent loan was never prepared. This led to a long, drawn out engagement on the institutionalization of the *Servicio Nacional de Caminos*, which was eventually resolved with a successful process that carried over to the new administration and which is still in place today. Another example of a reassessment of the likely prospects for success was with a Secondary and Higher Education project that was also dropped from the program. This reassessment was made because the Ministry was having considerable difficulties managing the reform in basic education and, in discussions with the government, it became clear that opening another front in the reform effort would seriously tax the government's administrative ability and political capital. Instead, the government and the Bank created a small \$5 million component within the existing project to advance the dialogue in higher education. This component was financed by redirecting funds in the existing project, while using additional donor funds to replace the WB money redirected to higher education. Another example, of the Bank's realignment strategy, is the Emergency package put together at the time of the 2004 CAS, a package whose critical contribution is acknowledged in the CAE.

Fourthly, the CAE states that the capacity of new instruments and processes such as CDF/PRSP to build consensus and resolve political and social conflicts is limited in sharply divided countries. In general, the CAE paints a fairly negative picture in its assessment of the usefulness of the PRSP. However, the CAE fails to note that the PRSP was instrumental in helping Bolivia get over \$1.3 billion of HIPC debt relief. Under the rules of the game, preparing a PRSP was a necessary step. At the same time, the CAE does not give credit to the PRSP in achieving a formula to allocate the HIPC money in a way that explicitly takes into account a poverty criterion. Reaching agreement on the allocation formula was difficult and has carried over through several administrations. At the same time, the Region does recognize the limitations of the PRSP that are mentioned in the CAE and, for those reasons, did not insist on a PRSP to underpin the 2004 CAS.

With reference to the Comprehensive Development Framework (CDF), the CAE states that "[o]ver-optimistic assessments of the Bank's internal ability to implement CDF principles led to early actions that built expectations and later had to be reversed, which adversely affected the Bank's relationship with the government and other donors." The Region believes that this is an unfair and judgmental assessment. Over optimism on the CDF permeated the international donor community as well and the government thinking at the time. There were solid reasons for the Bank to support its implementation. The lack of success of the CDF did not in any way affect the Bank's relationship with the government and donors. In fact, it has led us to where we stand today, trusted by the government and donors alike.

Finally, the implementation of the Bolivia CAS during this period resulted in unanticipated benefits to the Institution as a whole including being precursors for several instruments that today are mainstreamed (CDF, PRSP, Programmatic loans, etc). The Region believes that piloting these initiatives required considerable risk-taking, innovation and effort. All factors which the CAE does not take into consideration.

Overall, several inconsistencies in judgment between the text and the rating are duly noted by the Region. For example, the CAE, in paragraph 3.43, refers to "While the Bank's program was highly relevant...[and] help sustain Bolivia during this difficult period. The outcome of Bank assistance, due to lack of progress on critical political and social issues is rated as Moderately Unsatisfactory." The Region believes it is unfair to judge the performance of a program against a collapsing political environment for

which it has little or no influence. Last but not least, it is felt that an Unsatisfactory rating could be interpreted as a call to return to old ways of doing business, both in Bolivia and in the Bank. It prizes a risk-averse approach to supporting complex development processes, and penalizes the exercise of Bank leadership. *Thus, given the above considerations, the Region would like to suggest that OED revise its overall FY1999-03 and overall FY2004 WBG strategy rating of Moderately Unsatisfactory to Satisfactory.*

**On Opportunity objectives.** The CAE states that, "[w]hile progress was made in strengthening financial sector regulatory institutions, many indicators of sector performance have deteriorated." This understates the impact of reforms made to the financial sector to protect it against shocks. The financial sector in Bolivia absorbed formidable shocks but did not collapse as in high reformer Chile, and in contrast to Argentina and Uruguay. With reference to the physical infrastructure, as already mentioned in this note, institutional reform in this sector was significant and turned to be a priority before embarking in new infrastructure projects. So far, it was demonstrated that the strengthening of the *Servicio Nacional de Caminos* was a condition to ensure transparency and efficiency in investment projects that are now under implementation. *These achievements are not trivial and the Region believes that the CAE rating for this component should be revised from Moderately Unsatisfactory to Moderately Satisfactory.*

**On Equity objectives.** The CAE acknowledges progress in the social sectors. The sustainability of gains in the social sectors despite the shocks described above was quite an achievement. *In this context, the Region believes the CAE rating for this component should be revised from Moderately Satisfactory to Highly Satisfactory.*

**On Institutional objectives.** We concur on the ratings for both the Judicial Reform and Decentralization sub-components. However, given the significant organizational reforms (with attendant results) achieved in the Customs, Internal Revenue, and the Road agencies (despite the increasingly difficult political and economic circumstances), the creation of a nascent civil service structure, the design and installation of the integrated financial management system, as well as the contributions of the decentralization program to the achievements in health and education as recognized in the CAE, the Region disagrees with the current CAE rating. Clearly, in hindsight, holding achievements in this pillar up against the ambitious goals of the early CDF period is inappropriate. The real benchmark is the historic record of poor public sector management and governance in Bolivia. Public sector reform is by definition a slow process and modernizing the Bolivian state will take much longer than Bank project and CAS cycles. Indeed the greater the difficulties and challenges, the greater the merit of gains achieved. It is therefore notable that, in the face of a "pacted democracy," islands of progress were established and sustained, providing real benefits in terms of revenues, better service delivery, models for replication, and demonstrations of national capabilities. Finally, we note that paragraph 3.29 characterizes the Institutional approach as "consistent with the recommendations of the previous CAE". We agree and believe that this approach, which sought to support champions in a difficult and risky environment, was in fact nearly overwhelmed by tidal events beyond the capacity of the government, the Region, or OED to foretell. The fact that "islands of progress" remain suggests the results of the government's and Bank's efforts should be fairly judged as satisfactory, at least moderately so, against what would have occurred otherwise. *In this context, the Region believes the CAE rating for this component should be revised from Moderately Unsatisfactory to Moderately Satisfactory.*

## Annex E: Comments Received from the Government



REPÚBLICA DE BOLIVIA  
MINISTERIO DE HACIENDA

La Paz, 19 MAY 2005  
M.H. 718 VIPFE/DGFE/NEG-01637/2005

27-05-05A11:46 RCYD

Señora  
Laurie Effron  
Directora Interina  
DEPARTAMENTO DE EVALUACIÓN  
BANCO MUNDIAL  
Washington, D.C.  
USA



**Ref.: EVALUACIÓN DE LA ASISTENCIA AL PAÍS  
PARA EL PERIODO 1998 - 2004**

Señora Directora:

Hago referencia al documento de Evaluación de la Asistencia a Bolivia para el periodo comprendido entre 1998 y 2004, realizado por el Departamento a su cargo.

Al respecto, me permito manifestar que el Gobierno de Bolivia comparte parcialmente la opinión del Banco de considerar el impacto de esta asistencia como "marginamente insatisfactorio", sobre todo tomando en cuenta que el principal problema para alcanzar los objetivos e indicadores de desempeño, así como los de impacto de los proyectos, radica en problemas de diseño y no así en el incumplimiento de acciones o compromisos.

Por otra parte, en lo que se refiere al Proyecto de Reforma Judicial, el Informe solo hace referencia a la parte ejecutada por el Poder Judicial y no así por el Ministerio de Justicia, dentro del cual se elaboraron documentos para la creación del Tribunal Constitucional, el Consejo de la Judicatura y la modificación a la Ley Orgánica del Poder Judicial.

Asimismo, se aprobó la Resolución Ministerial para la acreditación legal de los centros de Conciliación y Conciliadores, se realizó el estudio y proyecto de la ley de Justicia Comunitaria y Tradicional.

Dentro de las Reformas Legislativas, se realizó la reforma del Código de procedimiento Civil, la Reforma al Código Civil, y otras relacionadas con la reforma del Código de Comercio, y Ley Uniforme de Procedimiento Administrativo.



REPÚBLICA DE BOLIVIA  
MINISTERIO DE HACIENDA

*En lo que respecta a los proyectos con el Servicio Nacional de Caminos, se anexa un cuadro actualizado de la tabla 3.3 del documento, en el cual se puede ver que se han cumplido con los indicadores hasta el año 2003.*

*Con relación al Proyecto de Reforma Institucional, adjunto a la presente, el criterio de la Unidad Técnica del PRI.*

*En lo que concierne a descentralización, antes de que se cuente con un proyecto destinado a impulsar este proceso, en el sector de electricidad existían problemas generados por la transferencia de la responsabilidad a los gobiernos municipales, sobre todo por la falta de capacidad para generar economías de escala, problema que se resolvió con el traspaso de competencia a las prefecturas para la generación de electricidad, por lo que el Gobierno considera que no sólo se cumplió el objetivo del programa sino que se puede ver un claro ejemplo con el Proyecto de Infraestructura Descentralizada para la Transformación Rural (IDTR) actualmente financiado por el Banco Mundial*

*Actualmente existe mucha coordinación entre las instituciones relacionadas en temas de descentralización como Viceministerio de Tesoro y Crédito Público, Ministerio de Participación Popular, Ministerio de la Presidencia, Directorio Único de Fondos, las cuales han reconocido que con las herramientas contempladas en esta operación los municipios están generando proyectos y lo que es más importante están priorizando estos, lo cual nos indica que la planificación ahora viene de abajo hacia arriba, que era uno de los objetivos que se buscaba.*

*Por lo anteriormente expuesto, agradeceré tomar en cuenta estas observaciones antes de emitir una versión final del informe.*

*Con este motivo, saludo a usted con la mayor atención.*

  
Dr. Luis Carlos Jenio M.  
MINISTRO DE HACIENDA

*Adjunto lo indicado*



## RED VIAL

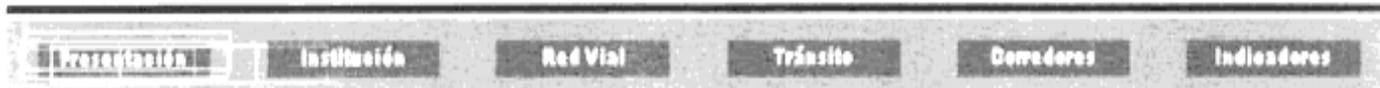
Longitud de la Red Vial Nacional por Depto. y por Tipo de Superficie de Rodadura

### LONGITUD DE LA RED VIAL NACIONAL POR DEPARTAMENTOS Y POR TIPO DE SUPERFICIE DE RODADURA ( En Kilómetros )

A Dic. de 2003

DEPARTAMENTO	TOTAL			TOTAL
	PAVIMENTO	RIPIO	TIERRA	GENERAL
LA PAZ	725,00	3.572,00	5.287,00	9.584,00
CHUQUISACA	218,00	1.513,00	4.123,00	5.854,00
TARIJA	449,00	1.349,00	967,00	2.765,00
COCHABAMBA	676,00	3.552,00	3.434,00	7.662,00
SANTA CRUZ	1.194,00	2.833,00	8.275,00	12.302,00
ORURO	571,00	1.366,00	3.636,00	5.573,00
POTOSI	249,00	2.634,00	8.687,00	11.570,00
BENI	176,00	1.372,00	2.263,00	3.811,00
PANDO	33,00	324,00	1.273,00	1.630,00
<b>TOTAL POR SUPERFICIE DE RODADURA</b>	<b>4.291,00</b>	<b>18.515,00</b>	<b>37.945,00</b>	<b>60.751,00</b>
<b>TOTAL GENERAL</b>	<b>60.751,00</b>			

FUENTE: Gerencia de Planificación y Desarrollo Tecnológico SNC



La tabla 3.3 del documento, necesita ser actualizado, OUTCOME

Paved Roads .....4291 Km up to 2003  
Gravel Roads.....18,515 Km up to 2003  
Earth Road.....37,945 Km up to 2003

Correction on Physical Infrastructure Objective

3.12

Creemos que las mejoras no han sido muy modesta y se han cumplido con los indicadores hasta el año 2003 como se indican con los numeros arriba mencionados, y creo que si se cumplieron modestamente con los indicadores del CAS 1998.

**Claudia Cardenas**

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**From:** Juan Carlos Zuleta [jczuleta@integridad.gov.bo]  
**Sent:** Viernes, 20 de Mayo de 2005 01:21 p.m.  
**To:** Claudia Cardenas  
**Cc:** Denis Angulo  
**Subject:** Comments on draft OED report "Bolivia: Country Assistance Evaluation"

Claudia:

Here are some punctual remarks regarding paragraphs 3.30-3.32 that pertain to the Institutional Reform Project (IRP):

Para. 3.30:

- 1) As of February, 2005, incorporations into the administrative career under the Civil Service Statute climbed to 3.412, around 20% of central government staff (including Prefectures) and 25% of it (excluding Prefectures).
- 2) While no census of public personnel exists, since April, 2005 the IRP is financing a pilot project led by the Ministry of Finance aimed at registering 30,000 public servants (around 10% of the complete public sector payroll) by June, 2005.

Para. 3.31:

- 1) IRP's financial support to SIGMA was only complementary to other specific operations financed by the WB and IADB and contributed to its implementation in almost all central agencies and in several autonomous government entities (among which are Customs, Internal Revenue Service and National Road Service).

Para 3.32:

I have no comments on this paragraph. The evaluation is consistent with the conclusion of the recent independent evaluation of the project.

Best regards,

Juan Carlos

**Government Comments on Draft CAE**  
**(non-official translation of Spanish letter)**

**(SEAL)**

**Government of Bolivia**  
**Ministry of Finance**

La Paz, 19 May 2005  
M.H. 718 VIPFE/DGFE/NEG-01637/2005

Stamped Received at the World Bank Office in La Paz, May 27, 2005

Mrs. Laurie Effron  
Acting Manager  
Country Evaluation and Regional Relations  
Operations Evaluation Department  
Washington, D.C.  
USA

**Ref: Country Assistance Evaluation for the 1998-2004 period**

Dear Mrs. Director:

I am writing to you concerning the document "Bolivia: Country Assistance Evaluation" prepared by your department.

In that regard, the Government of Bolivia, partially agrees with OED's rating of the outcome of Bank assistance to Bolivia as marginally unsatisfactory, above all recognizing that the principal problem in reaching the objectives of Bank assistance lies in design problems and not in the Government's failure to fulfill the required commitments or actions.

There are however some achievements with regard to the Bank's program that are not fully reflected in OED's report. With respect to the Judicial Reform Project, the report only makes reference to the actions taken by the Judicial Branch, and not by the Ministry of Justice. The ministry elaborated documents to create the Constitutional Court, the Judiciary Council, and the reform to the Judiciary Branch Law.

Also, the Ministry adopted a resolution that provides for the legal accreditation of the Arbitration/Conciliation Centers and the respective conciliators. Additionally, there was a study that resulted in the proposal of the Law for Community and Traditional Justice. Among the legislative reforms, the Civil Procedure Code and the Civil Code were reformed. Also, there were reforms to the Commercial Code and the Law of Administrative Procedure.

With respect to the projects with the National Roads Service, attached is an updated table that shows that the outcome indicators were met up until 2003.

With respect to the Institutional Reform Project, attached find the project's technical unit comments.

With respect to decentralization, before having a specific project for decentralization, it is worth mentioning that problems in the energy sector were a result of transferring responsibility for the sector to the municipal government, mainly because of their inability to generate economies of scale. This problem was solved by transferring the responsibility of electricity generation to the prefectures (prefecturas). Thus, the government considers that not only was this objective fulfilled but also that a clear example of it is the Decentralized Infrastructure for Rural Transformation Project currently financed by the Bank.

Currently, there is good coordination between the institutions in charge of decentralization, including the Vice-ministry of Treasury and Public Credit, the Ministry of Popular Participation, the Ministry of the Presidency, and the Unified Directorate of Funds (Directorio Unico de Fondos). They all have recognized that with the tools included in this project the municipalities are generating projects and what is more important, they are prioritizing. What this means is that planning is now coming from the bottom, which was one of the project's objectives.

I would appreciate if you could take into account the previous comments before submitting the final version of the report.

/s/ Dr. Luis Carlos Jemio M.  
Minister of Finance

**Annex F**  
**Bolivia: Country Assistance Evaluation**  
**Management Action Record**

<i>Major Monitorable OED Recommendations Requiring a Response</i>	<i>Management Response</i>
<ul style="list-style-type: none"> <li data-bbox="240 447 799 982">• The next strategy should have a short, twelve to twenty four month, time horizon, and should avoid pre-specified triggers and contingent responses. The medium-term framework should be based on the Bank’s independent “median value estimates” of relevant uncertain outcomes. These “estimates” should be based on a careful analysis of economic, social and political factors. With regard to social and political factors, the Bank should draw upon the expertise of independent analysts not affiliated with the Bank for this purpose, and consider the views of independent economic analysts. The same rigorous treatment of these factors should extend to the appraisal of operations supported by the Bank.</li>   <li data-bbox="240 1094 799 1402">• The next strategy, and its successors, should be formulated in the context of a time-bound plan for (a) achieving sustainable fiscal performance at levels of official development assistance that are in line with Bolivia’s per capita income and policy performance; and (b) improving public sector financial management. The plan and arrangements for monitoring its implementation should be spelled out in the CAS.</li>   <li data-bbox="240 1577 799 1801">• The Bank should not encourage Bolivia to complete another PRSP before internal agreement (in Bolivia) has been reached on hydrocarbon policy issues, on regional autonomy, and on the parameters of the constitutional assembly, and legislation reflecting these agreements has been enacted.</li> </ul>	<p data-bbox="824 447 1430 1010"><b>Management Agrees.</b> The next Bank strategy will follow in the footsteps of the 2004 CAS via a FY06-08 CAS Progress Report. This CASPR will be based on the principle of selective flexibility. Selected areas of intervention for FY07-08 will be chosen in advance, e.g. protecting the MDGs, strengthening the business climate, trade facilitation and economic integration. This approach will enable the Bank to meet the evolving needs of the government which, given the prevailing uncertainty lack, definition. The lending program will be complemented by just-in-time analytical work and by WBI learning and capacity programs. Pre-specified triggers will be avoided. Focus will placed on project result outcomes based on estimates as suggested by the CAE. Independent analysis will be providing input to the political and social risks associated with our strategy.</p> <p data-bbox="824 1077 1430 1524"><b>Management Disagrees.</b> Bolivia is in the midst of both a political and economic transition, both of which are intrinsically inter-connected; the future outlook remains uncertain. The CAE recommends formulating the next strategy and its successors in the context of a time-bound plan for achieving sustainable fiscal performance at levels of official development assistance that are in line with Bolivia’s per capita income and policy performance. How can the Bank do that given the prevailing uncertainty in Bolivia? A time-bound strategy only makes sense where there is a well defined and agreed upon government program. Unfortunately this is not the current case in Bolivia.</p> <p data-bbox="824 1560 1430 1812"><b>Management Agrees.</b> Before internal agreement is reached on the many issues pending in Bolivia’s national agenda, it makes little sense pushing for a PRSP. Such exercise would merely be inconclusive and strain, during the course of its preparation, the already stretched government capacity. The Bank should, however, actively support the development of a long-term national vision.</p>

## CHAIRMAN'S SUMMARY COMMITTEE ON DEVELOPMENT EFFECTIVENESS

Bolivia Country Assistance Evaluation  
Meeting of July 11, 2005

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1. The Informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) met on July 11, 2005 to discuss the Bolivia Country Assistance Evaluation prepared by the Operations Evaluation Department (OED). Written statements were issued by Messrs. Hermann and Quijandria.

2. **Background.** The Bolivia CAE provided an assessment of the Bank's assistance to the country during the period of 1998-2004. The report noted that Bank support was a major contributing factor to a number of positive developments, especially in health and education. Nevertheless, OED has rated the overall development outcome of Bank assistance as moderately unsatisfactory because of limited progress against objectives in improving the environment for private sector development, increasing rural productivity, and strengthening public sector institutions. Among main reasons and contributory factors the report notes: external shocks; political and social opposition to the government's program; inadequate appraisal and management of risks by the Bank during the FY99-03 period; and questionable relevance of a number of new Bank instruments and processes (CDF, PRSP, programmatic lending) in the country context. CAE identified five major lessons: (i) unbiased, balanced risk assessments improve the prospects for ex-post development effectiveness; (ii) indicators typically used by the Bank and other donors (e.g. health and education status indicators) do not fully capture aspects of development that are critical from political and social perspectives; (iii) the capacity of instruments and processes such as the CDF/PRSP to build consensus and resolve political and social conflicts is limited when sharp divisions exist; (iv) prolonged high levels of aid carry the risk of impairing recipients' ability to implement hard budget constraints; (v) donors can stimulate improvements in health and education in poor countries. CAE makes the following recommendations, focusing on the near term, given the high degree of uncertainty, which is likely to persist: (a) the Bank's strategy should have a short (12-24 month) time horizon, based on a careful analysis of risks, and consider the views of independent external analysts; (b) the Bank's strategy should aim at achieving sustainable fiscal balances at aid levels consistent with Bolivia's per capita income and policy performance, and rapid improvements in Bolivia's public sector financial management; (c) the Bank's strategy should continue efforts to provide AAA support on the critical issues such as its policies with regard to hydrocarbons development, political reform, and decentralization; (d) the lending program should be fully IDA-funded, in-line with IDA performance criteria, until Bolivia's creditworthiness for IBRD lending is established firmly; (e) the Bank should not encourage completing another PRSP before broadly acceptable legislation has been passed regarding hydrocarbons, regional autonomy, and the convocation of the constituent assembly.

3. Management, in its comments to the CAE, agreed with some of the report's conclusions and recommendations, but disagreed with the overall ratings. In management's view, progress towards Bank's objectives was moderately satisfactory when viewed in the context of external shocks and what could have happened had the Bank not acted as it did. Government of Bolivia partially agreed with the results of the report, and commented that planned outcomes of Bank assistance were not achieved due to design problems and not failure to complete required actions.

4. The Chair representing Bolivia noted the important role played by the Bank in achieving positive outcomes in several key areas, such as education and health. He also felt that the evaluation has somewhat underestimated the impact of external shocks, and emphasized the importance of PRSP process for HIPC debt relief.

5. **Main Conclusions and Next Steps.** The Subcommittee welcomed the very candid and informative CAE. While some members concurred with the CAE conclusion that growth and country performance forecasts were overly optimistic, and did not properly reflect on the country's track record and low score on governance indicators, others welcomed the innovative use of Bank instruments and processes and cautioned against sending a wrong message to the staff to be more risk-averse in turnaround situations. Members acknowledged visible achievements in social areas and stressed the importance of continuing dialogue within the country until the political situation is stable enough to allow for developing a new PRSP. Members strongly supported an IDA-funded Bank program in Bolivia, until the country achieves sufficient creditworthiness for IBRD lending. The CAE will be disclosed following the discussion at CODE Subcommittee.

The following points were raised.

6. **Risk assessment.** Some members concurred with the CAE conclusion that the Bank was overly optimistic in its assessment of macroeconomic situation and projections, and suggested in future comparing them with similar forecasts done by other institutions. In this context, a member stressed that Bolivia's low (below regional average) score on many governance-related indicators (voice and accountability, political stability, rule of law, etc.) was a clear sign of significant risks. Others felt that the risks taken by the Bank were justified and emphasized the importance of staying engaged in turnaround situations. They also cautioned against sending a wrong message to the staff to be more risk-averse and complimented country team for pioneering new instruments and processes. Management noted that it was aware of others' macroeconomic projections and stressed its confidence in the high quality of the Bank's own econometric model. According to the management, outcome assessment needed to account for major deviations like East Asian and regional crises. OED noted that not only did other donor's find the Bank's projections overly optimistic, but the IMF ex-post assessment of its Bolivia programs also acknowledged this over optimism. The same IMF report also noted that the Governor of the Central Bank of Bolivia expressed the view at the time that the Bank's projections were too high. OED added that the objective of CAE recommendations was not promoting risk aversion, but more efficient use of information in strategy and operations design.

7. **Bank's program.** There were many questions about the content and timeframe of the next country assistance strategy. In particular, many members were interested how different would it be from the previous strategy, and emphasized the need for more flexibility and adaptability, given the fluid political situation in Bolivia. Management replied that it will introduce significant changes in the Bank strategy, but noted that it will need to be aligned with the country's political cycle and that the final word on timing and content of future country assistance strategy will have to come from the new authorities. Management added that it will make efforts to introduce more flexibility into the country assistance strategy, which will depend on the quality of the ongoing dialogue with the main presidential candidates. Members strongly supported a fully IDA-funded Bank program, until the country is able to establish IBRD creditworthiness. A member stressed that the Bank needs to wait until an acceptable level of internal cohesion is achieved before offering massive aid. He added that in future lending decisions, choice of instruments should be based on actual performance and not political considerations of the moment. As for specific use of IDA resources, some members felt that more attention needs to be paid to productive sectors, inequality, institutional development, and indigenous people. Management concurred with the members' view on using IDA resources only and noted that Bolivia's IBRD creditworthiness depends on three highly volatile factors: growth, gas revenues and fiscal effort. Management also noted some positive trends that can have positive impact on reducing inequality, such as drop in fertility rate and spread of asset taxation. Some members were interested in the rationale behind shifting the focus of the last country assistance strategy from investment (infrastructure financing) lending to programmatic DPL and whether the decision to do so was driven by the government's less predictable capacity to deliver. Management explained that its decision to adjust the Bank's program by rolling back infrastructure (road) financing in favor of adjustment lending, in tandem with other donor partners, was

driven by materializing risks and emerging evidence of corruption in the road agency. A member was interested in an update of the impact of hydrocarbon law on political and economic situation. Management replied that although it still has reservations about the quality of the law, the market situation, including presence of investors on the gas sector, has changed for the better. In this regard, a speaker cautioned against overly optimistic view on the impact of the law.

8. **Results and role of the Bank.** Several members noted that the Bank has played an important role in improving social indicators, especially in the provision of education and health to the population, as well as in achieving progress in improving the legal and regulatory framework. A speaker suggested developing separate sets of indicators and benchmarks for different scenarios, thus making results measurement more flexible and accurate by factoring in possible external shocks. Management noted that, in spite of all external shocks, all five core country assistance strategy benchmarks (poverty head count ratio, poverty gap, child malnutrition, infant mortality and maternal mortality) have improved. Management added that although it did not anticipate the magnitude of the impact of external shocks, the economy has shown more resilience than the CAE has indicated. OED agreed that the benchmarks did show improvement, but noted that even the management's Progress Report stated that none of the benchmarks had been met. OED stressed that while it agrees that overall the Bank support made positive contributions in most of the areas in which it worked, the CAE ratings apply to the outcome of the program and are not an assessment of Bank performance, which OED does not rate in CAEs. Management emphasized the need to develop methodologies using counterfactual analysis, thus reflecting on the new ways of doing business in the Bank, especially results-based framework. Management added that given the difficult country circumstances, a "moderately satisfactory" rating, instead of "moderately unsatisfactory", would have been more appropriate.

9. **Fiscal performance.** Several members underlined the importance of fiscal discipline and noted that the multi-donor budget support program (PMAP) can be used as a solid basis for more work on fiscal sustainability and public sector financial management. In this context, a member expressed interest whether successes in the areas of health and education are sustainable. Management clarified that the Bank is currently providing the bulk of technical assistance for the PMAP, although it had not been able to join formally its budget support agreements because of absence of a PRSP. Management stressed that reducing fiscal deficit is critical and noted that sustainability of achievements in health and education partly depends on the future arrangement for debt forgiveness – i.e. whether the government will be allowed to use it for contracting fiscal deficit.

10. **AAA.** Several speakers noted the importance of continued delivery of high quality AAA products and urged more coordination with donors and government, as well as stronger linkages with Bank projects. A speaker, reflecting on the CAE observation that indicators typically used by donors do not fully capture all aspects of development, asked if available analytical tools are robust enough to look at the political economy aspects, and whether the Bank has comparative advantage in that area. Management replied that presently available analytical tools, such as Public Expenditure Review (PER), Country Social Assessment (CSA), Institutional and Governance Review (IGR) are capable of providing necessary politico-economic analysis. OED confirmed the abundance and high quality of AAA products in Bolivia, but noted that some of them (e.g. PER) could have been better integrated with the lending program. OED added that very useful work on political and social factors' assessment is being done by other donors (e.g., conflict vulnerability assessments by USAID and conflict monitoring by UNDP) that could further inform Bank work in this area.

11. **PRSP and CDF.** Some members were concerned about CAE recommendation to postpone PRSP completion, and stressed the importance of PRSP for dialogue, policy formulation and donor confidence. Several members noted that lessons from PRSP and CDF should be looked at in the context of HIPC framework and debt reduction. Some speakers were interested in the future evolution of PRSP process in the country and whether other, less sophisticated alternatives to PRSP could be used in Bolivian context.

Management confirmed that PRSP was a major factor behind debt relief and social achievements. Management also informed that due to constraints imposed by the ongoing political process and elections, it is possible that there won't be a PRSP for another 2-3 years. In this context, management highlighted the importance of sustaining the dialogue and past achievements.

12. **Role of IFC.** A member felt that the CAE would have benefited from an evaluation of the role of IFC in private sector development. Management agreed that IFC should have been factored in, given the significant size of its investment portfolio in the country. OED explained that role of IFC had not been evaluated by OEG because of its limited resources and staff capacity that have necessitated very strict prioritization.

Chander Mohan Vasudev

Chairman

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