



OED REACH

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Based on the *Bolivia Country Assistance Evaluation*.

Bolivia: Country Assistance Evaluation

- After over 10 years of stabilization and structural reform, Bolivia in 1998 appeared to be poised for major development advances. The Bank's FY99-03 program thus adopted accelerated growth, poverty reduction, and human development as its objectives, shifting in FY04 to supporting the government's efforts to manage the social and political crisis that erupted in 2003.
- Bank support was a major contributing factor to a number of positive developments, such as in health and education. Nevertheless, the overall development outcome of Bank assistance was moderately unsatisfactory because of limited progress in improving the environment for private sector development, increasing rural productivity, and strengthening public sector institutions. This was due in part to external shocks, but in the main to political and social opposition to the government's program. Inadequate appraisal of risks and risk management by the Bank during the FY99-03 period was a contributory factor. The country program was also an innovator with regard to a number of new Bank instruments and processes, but relevance of these innovations in the Bolivia context was questionable and their implementation proved problematic.
- Looking ahead, the extreme uncertainty that befell Bolivia in 2003 is continuing, with no indication that it will abate. In this environment, the Bank will need to maintain a short-horizon, and will need to focus on fundamental areas where development priorities are clear (e.g., continuing fiscal adjustment) and areas where prospects for effective use of development support are greatest.

Background

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. The international community was strongly supportive of these policies, with official development assistance to Bolivia averaging about US\$75/year/capita. The cumulative impact of these efforts was impressive in a number of dimensions. However, almost 70 percent of Bolivia's populace was poor in 1997 and 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.

Based on the policies in place in 1998 and those planned by the government, Bolivia seemed poised for major development advances. This did not happen. The period since July 1998 has turned out to be one of the most difficult Bolivia has faced. Growth averaged only 2.4 per annum and poverty stagnated at high levels due to a combination of external and internal factors, most notably mounting social unrest and political paralysis that continue to this day.

World Bank Assistance

The Bank's program since 1998 can be divided into two phases, FY99-03, and FY04, the first year of a planned two-year (FY04-05) program. During the earlier period, the Bank's program supported government programs that envisaged accelerated poverty reduction through faster sustainable private sector growth (Opportunity), investment in human capital and in boosting productivity in poor regions (Equity), and the development of public sector institutions (Institutionality) through lending (US\$455 million) and AAA. During this period, the country program also pioneered the development and application of new Bank instruments and processes (e.g. CDF, programmatic lending), which in the Bolivia context had limited relevance and problematic implementation. During the latter period, the Bank supported the government's program for dealing with the social, economic and political crisis that erupted in 2003, via lending (US\$69 million) and AAA support. The performance of these Bank services, as reflected in OED project evaluations and QAG quality at entry evaluations, was about average for the Bank. Non-lending services were uniformly of high quality.

Bank support was a major contributing factor to a number of positive developments in each of the three areas addressed by its assistance. However, with regard to efforts to improve the business environment and strengthen public sector institutions, some of the Bank's important specific objectives were not achieved, or when achieved were overwhelmed in their effects on outcomes by adverse developments with regard to risk factors – sometimes external, but many times related to mounting social and political opposition to the government's policies.

These risk factors – macro-economic shocks, political opposition, social unrest – were recognized by the Bank, both in its strategies and in the design of individual operations. The Bank, however, erred in underestimating both the likelihood and potency of these risks. It therefore did not weight them adequately in the design of its program and some individual interventions, or provide adequately for monitoring and adjustment through triggers.

The major lesson flowing from this evaluation is that unbiased, balanced assessments of risk, and re-assessment during implementation, improve the prospects for ex-post development effectiveness. In Bolivia, overly-optimistic macroeconomic, 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.

Recommendations

Bolivia's future direction is highly uncertain. It is unclear when and how this uncertainty will be resolved. CAE recommendations focus on the near term and the management of risks. The next strategy should be based on a careful assessment of risks and prospects and have a relatively short time horizon, focus on development fundamentals (e.g., high fiscal deficit and aid dependence) and areas where prospects for development effectiveness are greatest (e.g., analytical and advisory support on critical social and political issues, next steps in health and education, selective support of municipal development), and be funded with concessional resources.

Management and Government Response

Bank management disagrees with the conclusions of the CAE concerning progress toward Bank objectives, which it believes was moderately satisfactory when viewed in the context of the external shocks suffered by Bolivia and what could have happened had the Bank not acted as it did. It contends that the Bank assessed risks realistically and managed them appropriately. It agrees with CAE recommendations to adopt a short CAS horizon and to avoid pushing the government to complete a PRSP absent a reasonable national consensus on future development directions. It disagrees with the CAE recommendation that the next strategy be formulated in the context of a time-bound action plan for achieving sustainable fiscal performance at normal aid levels on the grounds that this would only be appropriate in the context of a well-defined and agreed upon government program, which it contends is not possible in the current situation.

Government commented that it agreed that planned outcomes of Bank assistance were not achieved, due mainly to design problems and not to failure to complete required actions. It also provided further details on specific aspects of the reforms and on Bank projects, particularly for judicial reform, institutional reform, and decentralization. These comments are reflected in the report.



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