

Evaluation and monitoring of
Poverty Reduction Strategies – 2003

Bolivia

Executive Summary



Preface

Poverty reduction strategies respond to legitimate concerns about the problem of persistent and high poverty levels in many developing countries. The international community has provided new incentives to poor countries to develop so-called Poverty Reduction Strategy Papers (PRSPs) which should lay down nationally defined strategies to reduce poverty. The strategy should be based on a participatory process of consultations between the government and civil society and should take a long-term perspective. This way sufficient national ownership should be created to yield the necessary commitment to effectively implement the policies geared at poverty reduction. The commitment of the donors is to support the strategy with financial resources and debt relief.

The Swedish International Development Cooperation Agency, Sida, has engaged the Institute of Social Studies (ISS) in The Hague, to monitor and evaluate the PRSP processes in the three Latin America countries eligible for debt relief: Bolivia, Honduras and Nicaragua. The study will be carried out over a period of 5 years, beginning in 2003.

Each year, five reports will be elaborated, including three country reports, one regional report and a thematic report. The country reports for 2003 provide an in-depth analysis of the PRSP process itself, assessing in particular the process of consultation and policy dialogue with civil society and to what extent these have laid the basis for a broad-based and effective poverty reduction strategy. The analysis of the country reports is supported by a detailed and systematic stakeholder analysis, including the stock-taking of the views of local actors through visits to several municipalities in the three countries. A comparative analysis of the experience in the three countries is presented in the regional report, highlighting lessons to be learned for governments, civil society and the donor community. The thematic report for 2003 focuses on the process of decentralization and participation as part of the PRSP process. It is important to remember that the PRSP process is a continuous process, subject to frequent changes. Information for this report was collected (and interviews were conducted) between April and July 2003, though the report has been updated to include developments through December 2003.

The five reports aim to make a contribution to existing evaluations of the PRSP process through the regional focus and an impartial assessment of the PRSP, resulting from the ISS's complete independency in the process of design, implementation and financing of the strategies.

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1. Introduction

With the approval of Bolivia's PRSP by the World Bank and the International Monetary Fund in 2000, Bolivia became one of the first countries to meet HIPC II requirements and qualify for the debt relief offered by this initiative. Bolivia's strategy – the *Estrategia Boliviana para la Reducción de la Pobreza* (or EBRP by its initials in Spanish) – was considered in international circles to be a good example of a PRSP, both in its content and for the process behind its creation.

Despite this initial enthusiasm for the EBRP, Bolivia's strategy has had a rough ride in its first two years. Although the original EBRP is still the country's official strategy, most Bolivians either are not familiar with the strategy or consider it a “dead” document. The implementation of the strategy (during an economic recession and in a tense social environment) has not managed to reduce income poverty, and few have confidence that the strategy will be able to solve the country's economic problems.

In October 2003, the national government distributed a proposal for a revised EBRP to the international donor community and in academic circles. The Bolivian population is currently waiting for an opportunity to discuss this proposal, as well as a number of issues that were not fully resolved in the EBRP (such as criticisms of the current economic model and concerns about land titling and the distribution of natural resources), during National Dialogue 2003. Sánchez de Lozada's government did not open this national dialogue during his tenure because of concerns that the political and social conditions in the country were not conducive to dialogue. With the departure of President Sánchez de Lozada and his replacement by Vice-President Carlos Mesa, the future of the national dialogue, of the original EBRP, and of the proposed revisions to the strategy is unclear. The Bolivian experience with the EBRP to date reveals weaknesses in the process put in motion through the PRSP initiative, weaknesses that frustrate the attainment of the goals of this initiative, even in the medium term.¹

The EBRP shares many of the problems observed in PRSPs from other countries (for example, it does not prioritize actions, there are

The Bolivian experience reveals weaknesses in the process put in motion through the HIPC II initiative, weaknesses that frustrate the attainment of the goals of this initiative, even in the medium term. The process has nonetheless left a mark on Bolivia – some positive signs and other troubling developments.

¹ PRSPs were expected to accomplish the following: (1) be nationally-owned strategies, with broad participation in the development, implementation, and monitoring of the plan, (2) focus on results that would directly benefit the poor, (3) develop a plan of action based on a comprehensive analysis of poverty, (4) create partnerships with the international donor community and with civil society for the implementation of the plan, and (5) establish a medium to long-term framework for these partnerships in poverty reduction.

concerns about the financial sustainability of the strategy, and ownership of the strategy is not wide-spread). Nonetheless, the EBRP stands out from other plans for the ambitious nature of the participatory process used in its creation (National Dialogue 2000) and for the important role assigned to municipalities in the strategy. The Bolivian case also stands out for the decision to institutionalize in a National Dialogue Law the distribution of most HIPC II resources to municipalities, the repetition of a national dialogue every 3 years, and the creation of a civil society organization (the Mecanismo de Control Social, or Social Control Mechanism) to help monitor the EBRP.

No matter what the future of the EBRP holds, the process of its creation and of its implementation has left a mark on Bolivia. The EBRP continued the process of decentralization and created a framework for continuing discussions about national policies. National Dialogue 2000 also increased pressure on the government to address a series of key concerns related to poverty. Official PRSP monitoring reports represent an important process of self-reflection by the government about poverty reduction efforts. In addition, the EBRP appears to have stimulated support by the international donor community for the development of poverty data and social indicators.

On a more worrisome note, concerns with the international donor community about corruption, control of public resources, and the absence of clear sector plans and goals are delaying the expected move towards more flexible basket funding. Weak institutions have also affected the implementation of the strategy. Despite the HIPC II debt relief, it appears that Bolivia may again be close to exceeding the sustainability ratio for its external debt. Equally troubling is the persistent and growing social and political instability, which demonstrates that neither the National Dialogue 2000 nor the EBRP have been able to build a shared vision for development and poverty reduction in Bolivia.

The EBRP is today at a critical juncture in Bolivia. This report analyzes how we got to this point and reflects on what the experience to date has meant for Bolivia and for the PRSP process in general. The data for this study includes reports written about the EBRP, official documents and data related to its implementation, and interviews with many stakeholders. During three weeks in April 2003, a team of four researchers interviewed a wide range of stakeholders from the national and local governments, civil society organizations, the international donor community, and independent experts on poverty and development in Bolivia. In August 2003, the ILDIS (Friedrich Ebert Foundation) organized a seminar in La Paz to which all of the interviewees as well as some additional organizations were invited to discuss the preliminary findings of the study. The discussions held on this occasion were the final input to this report.

2. The political, social and economic context

The political, social, and economic context of Bolivia influenced the development of the EBRP in this country. When Bolivia entered the HIPC II process in 1999, the country had several important strengths:

- A decentralized institutional structure, which had given municipalities an important role in expenditure and governances since 1999,
- Experience on the local level with participatory planning as well as one previous experience with using consultation in the design of national policies (the national dialogue of 1997, used by President Banzer to develop a plan of action for his government)
- Strong social organization
- Good relationship with the international community (based on Bolivia's dedication in the 80s and 90s to economic and other reforms)
- Proven creativity in the design of public policies (for example, the population participation which created a role for the municipalities and the process of capitalization of state enterprises)
- Sectoral development strategies from which it would be possible to draw lessons for future poverty reduction efforts (e.g. the Education Reform initiative, the PAN program — Programa de Atención a Niños y Madres—, agricultural extension initiatives)
- Recent efforts to create multisectoral strategies for poverty reduction (e.g. La Estrategia de Transformación Productiva del Agro, or Strategy for the Productive Transformation of Agriculture, of 1996 and the Propuesta Contra la Pobreza of 1997)

In 1999, Bolivia was experiencing significant social and political tensions and was entering into a period of economic recession, despite successfully implementing economic reforms in the 1990s.

At the same time, however, Bolivia faced a number of important restrictions and obstacles in its effort to reduce poverty. Past poverty reduction strategies had not survived changes in government. The reform agenda was already very full, taking up much of the government's attention as well as resources. In addition, some of the on-going reform efforts were plagued by persistent institutional capacity problems. A significant increase in social spending in the 1990s had reduced the incidence of non-monetary poverty, but income poverty rates and the total number of poor households had not gone down. Moreover, in 1999, the country was

entering a period of economic recession, despite its apparent “success” with stabilization and growth during most of the 1990s.

The beginning of the PRSP process in Bolivia (and the opening of the National Dialogue 2000) took place in an atmosphere of growing dissatisfaction amongst the population with national government actions. The outlook for relations between the government and the donor and creditor community was generally optimistic (especially in the World Bank), but many donors were unsatisfied with Bolivia’s track record for implementing the many reforms it had undertaken.

3. The process – creating the EBRP

The process of creating the EBRP can be divided into six stages: (1) the creation of the Interim PRSP, (2) “parallel” dialogues organized by civil society organizations, (3) national Dialogue 2000, (4) the writing of the EBRP, (5) “El Gobierno Escucha” (the government listens) workshops, and (6) the creation of the National Dialogue Law. The main actors in each stage of the process were different, creating a lack of continuity and of coherent in the products of each stage of the process.

Interim PRSP

The content of the Interim PRSP remained confidential until its approval by the World Bank and the International Monetary Fund.

The Interim PRSP was the government’s first proposal setting out the general scope of the future EBRP and establishing a plan for the finalization of this plan. The creation of the Interim PRSP was assigned to the Unidad de Análisis de Políticas Sociales y Económicas (UDAPE) of the Treasury Ministry. Because Bolivia was one of the first countries to become eligible for HIPC II, there were no previous experiences, nor documents to guide the country through the process. In October 1999, the Director of the Poverty Group at the World Bank advised the UDAPE team.

The Interim PRSP envisioned that the interim strategy would be further developed and refined during a process of consultation with civil society. However, the content of the interim PRSP remained confidential until it was approved by the World Bank and the International Monetary Fund in January 2000. Even after the approval, the interim plan was not widely circulated nor presented during the national dialogue. This created the first break between the participatory process and the process of actually writing the strategy.

The dialogues

The second and third stages of the process were participatory dialogues: one series of dialogues organized by civil society organizations (“the parallel dialogues”), and the official dialogue – National Dialogue 2000. The parallel dialogues were financed primarily with resources provided by the international donor community, which wanted to strengthen the contribution made by civil society in the development of the EBRP. The largest of these parallel dialogues were the Foro Jubileo organized by the Catholic Church and the dialogue run by the Coordinating Commit-

tee of Small Producers (Comité de Enlace), a group that had been recently created to bring together organizations representing small producers in Bolivia. These two initiatives managed to integrate themselves into the official dialogue, by obtaining seats from representatives from these parallel dialogues in the departmental dialogue tables in the National Dialogue 2000.

The national government decided to turn over the responsibility for the organization of National Dialogue 2000 to a Secretaría Técnica del Diálogo (STD), or Technical Dialogue Secretariat, in order to add legitimacy to the process (given the lack of confidence that the population had in the national government at the time). This decision meant that there was no formal participation of national government officials with decision-making power at the dialogue tables.

The STD was composed of independent professionals, many of whom worked with the international donor community and were ceded to the STD for this purpose. The STD proposed a methodology for the national dialogue that focused the discussion on questions to which the government could respond with specific actions. The central question was how and to whom the HIPC II resources should be distributed. The STD proposed that the dialogue be organized on the basis of municipalities, making municipal representatives (local authorities, representatives of local civil society committees, and one woman from the municipality) the central actors in the dialogue. Representatives of the municipal dialogues would proceed to departmental dialogue tables, and then final to a national dialogue table.

This methodology was revised after the Water Wars (a confrontation about water privatization in Cochabamba). The National Dialogue 2000 became a political priority for the government. Coordination with other social actors was strengthened. The Catholic Church added to the agenda the need for social control over government actions. The organizers also decided that in addition to the Social Agenda dialogue, organized by the STD, there would be an Economic Agenda (organized by the Ministry of Economic Development) and a Political Agenda (organized by the Ministry of the Presidency). The intention was to expand the topics open for discussion in the dialogue, but in practice it led to the isolation of many of the dialogue participations from economic and political topics. Each part of the dialogue was organized as a separate event. The planned union of the three agendas in a national summit did not take place because the Political Agenda of the dialogue could not reach any agreements.

National Dialogue 2000 began with municipal dialogues. The planned national summit, which would have united discussions about social, economic, and political issues, did not take place.

Writing the EBRP and the “Gobierno Escucha” workshops

Once the National Dialogue 2000 was finished, the STD finished its work, and the writing of the EBRP began. According to one member of the STD, this process was the “antithesis” of the dialogue process. The job of finalizing the strategy was again assigned to UDAPE, this time under the supervision of an independent consultant. The new consultant was chosen in large part because he had the experience and ability necessary to write a plan that would be accepted by the World Bank and the International Monetary Fund.

The agreements reached in the National Dialogue 2000 were one input into the writing of the EBRP, but they were not the most important input. According to UDAPE, the information that came out of the dialogue did not lend itself to prioritizing actions for a poverty reduction strategy. According to the consultant in charge of the UDAPE team, the results of the dialogue helped to define issues of importance to the poverty reduction discussion, but not to create a strategy that would meet the conditions established by the international community for obtaining debt relief.

UDAPE and an external consultant who had not participated in the National Dialogue 2000 spearheaded the writing of the EBRP. In the end, the most important inputs into the strategy came from donors and national government entities.

The drastic shift between the dialogue process and the creation of the strategy itself left some donors wondering whether the National Dialogue 2000 had really been a dialogue or only a show for the donors. Similarly, some interviewees from civil society organizations ask whether the Dialogue served any purpose at all. The Catholic Church complains that the government broke contact with civil society once the dialogue was over. One member of the STD concludes that it is “pure coincidence” if the EBRP appears to include the conclusions of the dialogue. One member of the team charged with writing the EBRP responds to these critiques by saying that the team members did their best to match the demands that came out of the dialogue with the supply of government programs, and package it in a manner that the World Bank and the IMF would approve. The terms of reference for the PRSPs were very clear, and the principal objective during the process of creating the EBRP was to obtain the HIPC II debt relief.

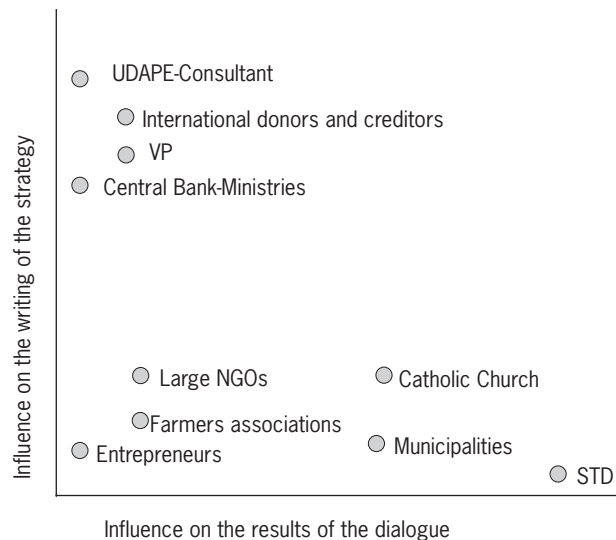
The lack of a clear link between the National Dialogue and the creation of the EBRP reduced the influence of the main actors in the dialogue (local governments, the Catholic Church, civil society organizations) on the contents of the final strategy. In the end, the most significant inputs into the creation of the EBRP came from the international donor and creditor community, both multilateral and bilateral, and from the national government, principally UDAPE, the sectoral ministries, and the Vice President.

The influence of the bilateral and multilateral donors is evident both in the inputs into the strategy (the guidelines for the PRSPs, and the macroeconomic policies, which the IMF had a major role in defining) and in the process of creating the strategy (lobbying by the bilateral donors to include themes like gender and corruption, technical assistance by the World Bank in the poverty diagnosis, “constant” meetings with the government to discuss drafts of the strategy). Similarly, national government involvement extended beyond UDAPE’s role in the process. Sectoral ministries saw the EBRP and the National Dialogue Law as an opportunity to introduce sectoral reforms or to extend sectoral programs. Absent from the dialogue itself, the ministries entered the discussion when UDAPE was writing the final strategy. The Bolivian Central Bank (with its projections of economic growth) and the Vice President (who provided the institutional chapter for the strategy) were other important national government actors.

In the middle of these diverse actors and interests, UDAPE became responsible for reconciling the demands and proposals of the dialogue, from the sectoral ministries, and from the international donor community. A draft of the final plan was then discussed with civil society repre-

sentatives at a workshop called “Gobierno Escucha”, or “the government listens”. These discussions did not result in many changes to the strategy. The attempt to satisfy so many different actors led to a strategy that includes many unprioritized actions, without a clear focus and with unrealistic economic growth projections.

Dichotomy between the consultation process and the writing of the EBRP.



National Dialogue Law

Once the EBRP was presented and approved, the sixth stage of the process began: the creation of the National Dialogue Law. The parliament had a role in this stage of the process, unlike the dialogue or the writing of the EBRP. The Ministry of Sustainable Development was in charge of writing the new law, with the help of a consultant who had been part of the STD. This arrangement helped create a stronger link between the National Dialogue 2000 and the National Dialogue Law, then exists between the dialogue and the EBRP. The objective of the National Dialogue Law was to formalize the agreements in the dialogue: 1) make municipal governments the principal administrators of HIPC II resources and prioritizing the poorest municipalities in the distribution of the funds, 2) create a Social Control Mechanism to ensure civil society involvement in the monitoring of the EBRP, and 3) institutionalize national dialogues. In addition, the National Dialogue Law introduced a new Política Nacional de Compensación, or National Compensation Policy, that assigns additional resources to the municipalities and attempts to direct the spending of these resources towards sectors that were identified as priority sectors for a poverty reduction strategy.

Were the objectives of participation met?

Ownership. One objective of the PRSPs was to create ownership of a poverty reduction plan through the participatory process leading to its creation. What can we conclude about this hypothesis from the Bolivian case? In 2003, almost no one felt ownership over the original EBRP – people were either unfamiliar with the strategy or did not defend it. The situation in 2001 is more difficult to reconstruct, but it appears that

In 2003, no one felt ownership over the EBRP; either they were unfamiliar with the strategy or they no longer defended it.

if there ever was a sense of ownership for the strategy, this was limited to a small number of actors.

This lack of ownership of the strategy among the main actors in the national dialogue shows that just participating in a dialogue or being consulted about a strategy is not a sufficient condition for creating ownership. The lack of ownership of the strategy among the actors who did have significant influence over the *content* of the EBRP could have a number of different explanations. The change in government in 2002 was one decisive factor. It is also possible that the increasing economic and social problems led the original authors of the strategy to become more and more disillusioned with the plan of action they had proposed. Another argument is that the government could not feel ownership over a strategy that was designed primarily to meet HIPC II requirements.

The National Dialogue 2000 included many opportunities for the representation and even participation of the poor, but the break between the dialogue and the writing of the strategy reduced the impact of many of the possible representatives of the poor in determining the content of the strategy.

Institutionalization of the dialogue process A common criticism of the process outlined in the HIPC II Initiative is that a participatory process imposed from outside will not be taken seriously by a government that neither accepts nor believes in the advantages of participation. In Bolivia, the participatory process was taken seriously because the actors involved saw personal or political advantages for having the dialogue. Moreover, the National Dialogue Law institutionalized these processes, indicating that Bolivia chose to further pursue this path to policy making.

Participation by the poor One of the central objectives was to include the poor in discussions about the causes and solutions to the poverty problem. The National Dialogue included various different opportunities for direct or indirect (through civil society organizations or elected local government) participation of the poor. One can discuss to what extent these different organizations actually represent the poor (and indeed several studies about the participation process in Bolivia ask this very question), but one cannot deny that there were many opportunities for the representation of the poor in the process. Nonetheless, with the break between the dialogue and the writing of the EBRP, the influence of all the representatives of the poor is diminished. The responsibility to look out for the interests of the poor fell to those who had the dominant roles in actually writing the strategy.

4. EBRP: Original strategy and initial response to critiques

In this chapter we analyze in detail the content of the original EBRP – the poverty analysis, the action plan, and the institutional and macroeconomic framework. One central objective of the chapter is to understand the major critiques of the strategy, and how the Sánchez de Lozada government intended to respond to these critiques with the draft revised EBRP that was presented to the Consultative Group in October 2003.

Poverty analysis

The poverty analysis in the EBRP defines poverty in two ways: with an index of unsatisfied basic needs and with an income poverty line. Some observers complain that these measurements ignore other qualitative factors that also define poverty, for example cultural, ethnic, and gender factors. Another critique of the poverty analysis in the EBRP is that it does not examine differences in poverty levels between different groups in society, nor does it investigate the correlation between certain household characteristics and poverty.

Neither the original EBRP nor the revised strategy includes an analysis of the causes of non-monetary poverty, of the persistence of unsatisfied basic needs. As a result, the EBRP is missing analysis on which to base its action plan for the social sectors.

The analysis of the causes of income poverty in Bolivia coincides with the major studies about poverty in the country. Many actors nonetheless say that the structural causes of poverty do not receive enough attention in the strategy. Among the cited missing structural causes of poverty, three stand out: 1) the “economic model”, 2) the distribution and health of natural resources, and 3) structures of power and exclusion. Other weaknesses with the poverty analysis are the lack of attention to risks and vulnerabilities that tend to send households into poverty and the complete absence of discussion about the role of state policies in either supporting or frustrating the poverty reduction effort in the past.

Goals without backing

The central objective of the original EBRP is translated into five impact indicators with goals defined for each in 2015. These are linked to result and intermediate indicators that are easier to monitor on a short-term basis. Among these indicators, few differentiate between men and women,

There is no clear conceptual or empirical connection between the action plan and the goals in the EBRP.

boys and girls, ethnic groups or other subgroups of the society. In the revised EBRP, the government proposed to replace the original set of indicators with goals more aligned with the Millennium Development Goals.

The methodologies used in the original EBRP (and apparently in the revised EBRP as well) to project progress in poverty reduction and the extension of social services have no clear relationship to the plan of action in the strategy. These methodologies (recommended by the World Bank) are not based on historical evidence of the impact of actions and investments, or on models that directly associate the action plan with changes in the indicators. For example, the projections of the reduction of income poverty in Bolivia are a function of three factors: economic growth, income distribution, and the distribution of the population between rural and urban areas. But the EBRP does not establish a conceptual link between these three factors and the action plan in the strategy. This disconnection between the actions and goals in the strategy led two interviewees to compare the EBRP to a “Stalinist” plan, with ambitious goals and no evidence of how those goals would be achieved. The revised EBRP tries to narrow this gap between actions and goals with more developed economic proposals, but it does not completely resolve this weakness in the strategy.

The macroeconomic framework

A central assumption in the EBRP is that actions aimed at poverty reduction will take place in a context of macroeconomic stability and that these actions will not upset the fiscal, monetary, commercial, or financial policies of the Bolivian economic program. In other words, the EBRP considers the continuation of the economic program to be a given in the strategy. It relies largely on strategic sectoral actions to increase the elasticity of growth-poverty reduction

The major critique made of the macroeconomic framework in the EBRP relates to the inclusion of optimistic growth projections (between 4 and 5.5% per year) that would be unprecedented in comparison with the past 30 years of economic performance. The EBRP does not explain how these projections could be achieved nor present a plan for moving out of the economic slowdown that the economy was entering in 1999. Nor does the plan analyze alternative economic policies that could be more or less favorable to poverty reduction.

Action plan

The original EBRP is primarily a continuation, or in some cases a deepening or acceleration, of a framework of actions and investments that was in place prior to the EBRP. With its long unprioritized list of actions, the EBRP includes most everything that the government and the international community already do. In that sense, the strategy does a better job of cataloguing poverty reduction efforts ongoing in the country than of defining a strategy action plan.

The vision in the EBRP is one of universal actions, rather than actions targeted to specific municipalities or groups in the population. Nonetheless, the action plan has a rural slant, which is consistent with the general perception that poverty problems are more severe in Bolivia’s rural areas.

A wide variety of stakeholders say that the main problem with the EBRP is that it does not present a credible solution to the country’s economic problems.

The action plan in the original EBRP is organized in four pillars: opportunities (increase employment and income opportunities), capacities (develop productive capacities), social protection, and social participation. In budgetary terms, the actions aimed at creating opportunities and developing capacities are by far the most important.

It is impressive to hear a wide variety of stakeholders say that the primary problem with the EBRP is that it does not offer a solution to the economic problems in Bolivia. In addition, many feel that the strategy places too much emphasis on human development and that these investments will not be sustainable. Another critique is that the EBRP pays lip service to gender issues but does not really treat it as a cross-cutting issue.

The revised EBRP preserves most of the actions proposed in the original EBRP, as well as the structure of the investment plan. But the new draft plan tries to respond to the lack of confidence in the economic development proposal by outlining a more active role for the state in the promotion of productivity chains and local economic development. Both ideas, as well as the infrastructure investments and land titling programs proposed in the draft strategy, are meant to promote the development of small and medium sized enterprises. The revised EBRP also includes some programs that were excluded from the original EBRP, such as alternative educational opportunities.

Resources

Both the original and the revised EBRP are strategies that far exceed the HIPC II resources in scope. Funds liberated through debt relief (HIPC II plus some additional debt relief referred to as “beyond HIPC”) amount to a bit more than US\$100 million per year, whereas the budget of the EBRP for a six year period is estimated to be \$US 7.360 millions. This is not all new spending; most existing government investment programs and projects financed with foreign funds are rolled into the strategy. To be able to increase expenditures without disturbing the macroeconomic stability, the EBRP proposes to (1) increase tax revenues, (2) extend Bolivia’s access to concessional financing, (3) support private sector participation in infrastructure, and (4) redirect resources from projects and programs with less impact on poverty towards high-impact activities.

HIPC II y “beyond HIPC” debt relief amounted to approximately \$110 million per year. The majority of these funds are assigned to the municipalities. The total budget of the EBRP is more than \$1 billion per year.

Institutional changes

The majority of the actions proposed in the EBRP are the responsibility of national government bodies (along with the Prefectures, decentralized administrators of national programs). To strengthen this level of government, the EBRP proposes the reform of several government bodies (“institutionalization”). In contrast, the EBRP does not include a specific plan for developing capacities at local government level. The main measure proposed to support local government is that distribution of new resources, including most of the HIPC II resources, to the municipalities.

Monitoring and evaluation

The original EBRP proposes a monitoring and evaluation plan with several components. Monitoring is defined as measuring compliances with projected indicators. Evaluation is defined as impact assessment of the most important programs in the EBRP.

Evaluation is the responsibility of UDAPE, but the official monitoring of compliance with the strategy is assigned to a team headed by UDAPE but included in the National Institute for Statistics, the Vice Ministry for Public Investment and External Financing, and the sectoral ministries. Civil society also has a role in monitoring. The new Social Control Mechanism is supposed to assure the involvement of civil society in this process, but this does not exclude involvement of other civil society actors. The National Dialogue Law also calls for the revision of the strategy every 3 years, through a national dialogue process, which opens up the opportunities for involvement of other stakeholders.

On paper, this strategy appears to favor the monitoring of compliance with the national action plan. It is less clear how the system will permit the monitoring of local actions, or the detailed study of how well the strategy is translated into budgetary priorities. The revised EBRP tries to address these weaknesses, but includes such an ambitious list of monitoring and evaluation activities that it raises doubts about the ability of the national government to undertake all these activities.

5. Implementation

Debt relief

HIPC II resources have been being distributed to the municipalities since August 2001. For the municipalities, these sources have helped protect the per capita value of transfers from the national government at a time when the “coparticipation tributaria” (the 20% of national revenues that are assigned to municipalities and have been since 1994) was declining. Unfortunately, the execution of these resources by the municipalities has been slow. In 2002, only 52% of the debt relief resources delivered to municipalities were actually spent.

These transfers to municipalities have created concerns for the National Treasury. They are in effect an “extra” expense for the Treasury, which cancels out the fiscal relief that the debt relief could have generated. The transfer of funds to the municipalities has also created problems for debt management, because the central government cannot predict exactly when municipalities will spend the resources and how much they will spend.

Fiscal sustainability in danger

Discussions in Bolivia about HIPC II initially centered on the idea that debt relief would liberate resources, permitting the expansion of pro-poor expenditures. In practice, this vision of the impact of debt relief has proven inaccurate. Various factors have contributed to the creation of a fiscal crisis at the national level:

- the economic slow down (and the subsequent reduction in tax revenues)
- a further reduction in tax revenue from the oil and gas sector (related to the freezing of prices for these products)
- the constant increase in cost of past reforms (such as the pension reform)
- an increase in expenditures in some areas, some of which, such as more teachers and health professionals and the transfers to the municipalities, are related to the EBRP, and
- increasing interest payments on internal debt.

Another key factor has been the lack of a PRGF agreement between Bolivia and the IMF since 2001. Without a PRGF, Bolivia has been pushed towards non-concessional financing, and some donor aid (such as the PRSC from the World Bank) has been delayed. When the previous agreement with the IMF ran out in 2000, Bolivia was “on track” with the IMF’s quantitative targets, but the PRGF was held up because the government had not yet passed the expected reforms to the tax code. By the second half of 2002, the country was no longer meeting the quantitative targets, further undermining progress towards a PRGF. After the violent confrontations of February 2003 (sparked by protests over proposed tax changes), the President visited Washington to press the importance of rapidly reaching an agreement with the IMF. By this point, however, a further obstacle to approving a PRGF has appeared – an obstacle directly related to the EBRP. The compromise was to negotiate a stand-by agreement, with a short-term vision, which goes against the medium to long-term vision of the EBRP.

The decision to change the EBRP created a barrier to negotiating a PRGF with the IMF. Without a PRGF, non-concessional borrowing has increased and the World Bank’s Poverty Reduction Strategy was delayed.

To obtain a PRGF agreement with the World Bank, governments are expected to present regular monitoring reports of progress in implementing their PRSPs. But in this case, the government of Sanchez de Lozada had already announced its intention to change the EBRP. This meant that the original strategy would no longer serve as the basis for negotiations with the IMF. To reach a PRGF agreement, the government was required to present both a monitoring report and a revised EBRP. At this stage, UDAPE’s monitoring report has gone through several revisions (responding to requests from the IMF and the World Bank), and the government has presented a draft revised EBRP. The hope is that the IMF and the new national government will reach an agreement by the end of the year.

It is important to note that during this difficult period for the national government, government officials do not appear to have taken the steps identified in the EBRP as necessary to guarantee the sustainability of the strategy. For example, the government of Sánchez de Lozada did not make a specific effort to transfer resources to priority sectors or to negotiate changes to existing donor funded projects. In interviews with government officials, the predominant attitude seemed to be that the only way to readjust the orientation of government expenditure would be to seek additional resources from the international community. It is also possible, nonetheless, that the government simply decided that redirecting expenditure or projects towards the priorities identified in the EBRP did not make sense, given that the strategy was going to be changed.

The EBRP and the budget

Bolivia has, in theory, a strong system for managing public resources, but in practice this system has not lent itself to preparing a budget that supports the EBRP or to clearly identify in the budget the expenditures that related to the poverty reduction strategy. Nor does the system make it easy to track categories of expenditure that are generally considered to be progressive (such as expenditures on primary education). Another problem with monitoring the budget stems from the decentralized nature of some aspects of the EBRP. Given the current structure of the EBRP, it would theoretically be necessary to determine how municipal expendi-

tures contribute to overall national spending goals, but currently the budget monitoring system only collects data from just over 100 municipalities.

Despite these difficulties with monitoring budgets, it is possible to see that social expenditure in Bolivia has not dropped much during this period of economic crisis and that, with the exception of the water and sanitation sector where investments have dropped significantly since 1999, the sectoral distribution of social expenditures have not changed with the EBRP. Some expenditures directly related to the EBRP helped contributed to the continuation of trends in social expenditures, such as the increase in the number of teachers and health workers. However, it is interesting to note that in the Stand-by agreement with the IMF the government commits itself to levels of social spending, without making direct reference to the EBRP.

The National Compensation Policy (or *Política Nacional de Compensación*)

The National Dialogue Law created an additional source of resources for municipalities, beyond the debt relief resources. This new National Compensation Policy (or *Política Nacional de Compensación* (PNC)), attempts to provide additional resources for local investment by channeling resources obtain through credits or donations to the municipalities.

In 2002, the *Fondo de Inversión Productivo y Social* (FPS), fund responsible for the PNC, had a record year for disbursements. Nonetheless, the PNC has had some problems. First, it appears that the PNC has not had the political support necessary, nor received sufficient confidence from the donors, to obtain the \$100 million initially desired for this fund. Second, this reform has largely decentralized the project cycle process, transferring the responsibility for the elaboration of projects to municipal governments. This has proven very difficult for many municipalities (in particular the small ones) and led to the submission of many incomplete project proposals to the PNC.

Institutional capacity

The slow execution of the HIPC II funds by the municipalities and problems observed in the preparation of projects for the PNC are partially due to the delegation of many new responsibilities to municipalities in a relatively short time. There were no systematic efforts to develop municipal government capacities to deal with these new responsibilities during the first years of the EBRP. At the national level, on the other hand, the EBRP monitoring reports report that 100% of the anticipated national capacity building efforts have been completed. Most of the institutional reforms at this level of government however have focused on changes to human resources, rather than organizational restructure or the legal frameworks that govern activities. In terms of efforts to combat corruption, laws and regulations have been passed, but the all-important reform of the judicial system has not been completed.

The role of civil society in monitoring the EBRP

Despite the new Social Control Mechanisms, UDAPE characterizes the role of civil society in the monitoring of the EBRP as sporadic.

The National Dialogue Law created a “social control mechanism” at the national and departmental levels in order to ensure participation of civil society in the monitoring of the EBRP. The start-up of these mechanisms was very slow. Both the new national and departmental mechanisms have suffered from not having funds for their operations and from not have a clear idea of their mission. Today there are large differences between the national mechanism (which has become an important political voice) and the departmental organizations (which have focused more on the monitoring of projects and programs). Despite the presence of these new mechanisms, UDAPE characterizes the involvement of civil society in the monitoring of the EBRP as sporadic.

National dialogue and changes to the strategy

With the Sánchez de Lozada government and among members of the international donor community, discussions about the EBRP have centered more on changes to the strategy than on the implementation of the original EBRP. The government's intention was to inaugurate another National Dialogue in 2003 to discuss the proposed revised strategy, but this dialogue has not taken place yet. The government has been concerned about the delay, both because the expectations for this dialogue have risen and because government officials looked at the dialogue as the final step necessary in defending the proposed changes within the government and to the international community. It is still not clear how the new President will deal with a situation in which, on the one hand, the population is asking for a dialogue to discuss much more than just the revised EBRP and, on the other hand, there are serious problems and risks involved in organizing this type of event in a turbulent social and political environment and in the context of a fiscal crisis.

Impact on poverty

Following the pattern of previous years, the first years of the EBRP have seen continued progress in the extension of social services, but little progress in the reduction of monetary poverty. Inequality in the income distribution has increased over this period.

6. The role of the donor community

Role and opinions about the content of the EBRP

The entire international donor community (and not just the World Bank and the IMF as would be expected) has been a central actor in the creation of the original EBRP and in the preparation of the revised plan. This means that many of the critiques that the donor community makes of the strategy are in part the result of their involvement in the process. Examples of this problem include the failure to prioritize actions (because the donors, as well as other national actors, wanted to make sure their key projects were included), the lack of attention to economic solutions (because the donor community has for some time emphasized the need for social sector development and spending), and the lack of national ownership for the strategy. The lack of attention to the implementation of the strategy is also related to the general tendency of the donor community and the Bolivian government to prioritize the creation of new plans (“la nueva brillante idea”), and tie aid to these plans, rather than focus on the execution of the plans.

Support for the strategy and changes to aid policies and practices

One objective of the PRSPs was to generate changes in the practices of the donor community, including increasing donor coordination and strengthening the role of the donors in supporting government-driven plans. In terms of donor coordination, we observe in Bolivia that the donors meet frequently amongst themselves (and according to some donors, more often than before). This coordination appears to reduce overlap in projects, but in general each donor is still working with its own objectives, indicators, and procedures. It appears that the lack of process in donor coordination is due in part to the lack of leadership on the part of the national government.

There has not been much change in the type of aid provided. The bilateral donors feel that the original EBRP is extensive enough to include all of their projects, so there is no real need to make adjustments. Only the European Commission expressed a desire to change some aspects of its new 5 year strategy to better coordinate with the EBRP.

The World Bank and the IMF in theory support the EBRP through the PRGF and a Poverty Reduction Strategy Credit (PRSC). But at the

There has not been much change in aid modalities. The government appears to still have little control over development aid or projects.

moment, Bolivia has neither PRGF nor PRSC. The cross-conditionality of these programs has had at least three negative consequences in the Bolivian case: (1) it has made it more difficult for the government to meet macroeconomic targets, leading to a vicious cycle of non-compliance, (2) it has increased non-concessional borrowing, and (3) it led to a situation where the Bolivian government was “obliged to” seek budgetary donations from bilateral donors, who did not feel that the conditions had been met for this type of assistance.

The EBRP was expected to provide direction for the government in its relationships with the donor community and the international financial institutions, but in practice it appears that the government still has (and feels it has) insufficient control over development aid and projects. The EBRP was also expected to lead to an increase in program aid and basket funding, but this has not materialized. There appear to be three obstacles to this development. A first problem is that many donors are required to provide detailed accounts of how money is spent to their own governments or parliaments. A second problem is that, according to some donors, the management of public funds in Bolivia is still too weak and there is too much corruption. Finally, some donors say that the EBRP is not concrete enough yet, and does not include specific enough sectoral plans, to help promote basket funding.

7. Conclusions

Main findings

The EBRP represents a serious effort by the Bolivian government to develop a poverty reduction plan. Although the idea for such a plan came from outside, many national actors adopted the idea of having a poverty reduction strategy and of designing this strategy through a participatory process. The PRSP process was in some sense a continuation of processes that were already underway in Bolivia, including for example the National Dialogue held in 1997. Nonetheless, the main objective of the government in this process was to obtain the debt relief, and this objective colored the organization of the entire process of developing the plan. There was a clear break between the dialogue process and the writing of the strategy. This break was partially responsible for the lack of ownership and even knowledge of the strategy outside a small group of national actors.

Nonetheless, the process of preparing and implementing the EBRP appears to have opened up some opportunities for positive developments in the future.

- The process renewed the political focus on the decentralization process.
- The EBRP helped protect municipal budgets and social expenditure during a time of fiscal crisis.
- There is now an important place for discussions of poverty reduction in national political discussions.
- The process has increased the amount of information and data available about poverty in Bolivia.
- New social control institutions open up spaces for the involvement of civil society.
- Some civil society organizations were strengthened and united through their participation in the dialogue process.

On the other hand, a number of worrisome problems have arisen in the implementation of the strategy, problems that suggest that there will be difficulties in the future implementing any poverty reduction plan. It is safe to conclude that the EBRP has not managed to meet the central objectives of the PRSP process (ownership, creation of a medium term

The process of elaborating and implementing the EBRP appears to have opened some opportunities for positive developments in the future, but problems that have arisen in the implementation of the strategy foreshadow difficulties for the any future poverty reduction plan.

framework, changes in government-donor relations). Where the EBRP appears to have had more success is in the involvement of a wide range of actors in the discussion of national level policies (though this consultation cannot be categorized as effective participation and did not spark a feeling of ownership over the plan among participants). Despite these problems, it would be premature to draw conclusions about the extent to which the process set in motion might lead to significant and sustainable progress towards poverty reduction, particularly given the important economic, social, and political juncture at which Bolivia finds itself today.

Looking to the future

Changes to the strategy and the role of the international community

If one of the goals of this process is to obtain a better prioritization of actions to create a more feasible agenda for the government, all actors, including the international community, will need to accept that some important projects, programs, and themes will be left out of the strategy.

The fact that the revised EBRP and the monitoring reports have become a requirement to obtain a PRGF (and in turn a PRSC) has given much weight to the donor community, and to the World Bank and IMF in particular, in the design of the revised plan. If one of the goals of this process is to obtain a better prioritization of actions to create a more feasible agenda for the government, all actors, including the international community, will need to accept that some important projects, programs, and themes will be left out of the strategy. Likewise, in order to foster national ownership of the plan, the donors will need to seek ways to support the process without succumbing to the temptation of directing it. For the World Bank and the IMF, this could mean reconsidering the management of conditions set for a PRGF.

Changes to the strategy and the content of the strategy

In Bolivia, there appears to be a tendency to keep improving plans without taking full advantage of the lessons learned from the implementation of earlier plans. In the process of revising the EBRP, both the government and the international community need to reflect on how much one can reasonably expect from a PRSP, and when the plan would be good enough (despite its weaknesses) to proceed with the important step of implementation.

From the analysis and interviews that contributed to this report, it is possible to identify many ideas about where the principal weaknesses of the original EBRP lie, and what should be emphasized in the revisions to the plan. The full report summarizes many of these points, without suggesting that they should all be addressed in any revision of the plan.

Partnerships in poverty reduction

Bolivia has not made much progress in the creation of partnerships between government, civil society, the private sector, and the international community. One challenge for the government in the coming years will be how to encourage and support the creation of these partnerships. This will require a much more active role of the government in disseminating, describing, and promoting the EBRP and its related sectoral strategies, both within the government and to other possible partners in the fight against poverty.

Decentralization and the fight against poverty

The experience acquired over the first two years of the EBRP suggests that there are important limitations to the strategy of decentralizing resources as a way to attack poverty. One of the major limitations relates to the capacity of local governments to take on wider range of activities. It would be useful for the national government in Bolivia to openly discuss these problems with the municipalities, to determine what support they need and to seek ways to make the expectations placed on municipalities more flexible and better adapted to the capabilities of different local governments.

More specifically, as discussions about the need to add economic development to the EBRP have increased, concerns have arisen about the ability of municipal governments to take on responsibilities for this type of activity. Among government officials, there seems to be a general consensus that municipalities cannot take on responsibility for all local economic development activities, and that some activities are more appropriately assigned to “*mancomunidades*”, regional, or national government. The EBRP recognized the need to sort out these institutional arrangements, but this task remains a challenge for the new government.

The Bolivia case also shows the decentralization of funds creates complications for the monitoring and evaluation of a poverty reduction strategy. Funds are assigned to local governments with the idea that that level of government can best choose effective poverty reduction activities. But this freedom for the municipal governments creates headaches for the national government, which is charged with monitoring expenditure and evaluating the impact of its poverty reduction plan. This issue will continue to present a challenge as the national government and donors move towards “results-oriented budgeting”.

Dialogue, expectations, and social conflicts

Some of the interviewees for this report expressed the opinion that the 1997 and 2000 national dialogues generated great expectations among the population; as the government was unable to meet those expectations, the dialogue processes ended up deepening social unrest and political tensions. Going backwards now and eliminating these dialogue processes will not be a solution to the current problem. But the Bolivian experience does raise serious concerns about the risks of dialogue and about how to manage such dialogues with the seriousness they deserve. We believe it is important to seek out more small and permanent spaces for discussion of public policies, including opportunities for discussions over specific themes. Continuous smaller discussions would help avoid that all expectations rest on one event every three years.

Fiscal sustainability

The HIPC II Initiative sought to return countries with unsustainable debt loads to a position of fiscal sustainability. But in Bolivia today there are again concerns about the fiscal health of the national government and, as a result, about the sustainability of the EBRP. To get out of this situation, it will be necessary for the government to pursue many of the actions proposed (but not implemented) in the EBRP, such as cutting and redirecting expenditures and increasing tax revenues through reforms to

the tax system. Although the national government clearly plays a lead role in creating the fiscal environment necessary for a poverty reduction strategy, the local and departmental governments also have a role to play.

Implications for Sida and other donors

The EBRP has not yet achieved the goals set out for PRSPs. With the sustainability of Bolivia's debt now in doubt, it appears that the major objective of the HIPC II Initiative is also in jeopardy. For Sida and other donors, it is important to recognize that the international donor and creditor community played, and plays, a direct role in the creation, monitoring, and implementation of the EBRP and thus shares the responsibility for these outcomes.

The fact that the EBRP has not achieved, even in the medium term, the goals set out for PRSPs suggests that now is a good time to reflect on the weaknesses of this approach to accelerating poverty reduction in Bolivia and in other countries. There is an important role for Sida to play in facilitating and encouraging this discussion.

The experience in Bolivia suggests that the risks of donor coordination deserve special attention and debate, both at a national and international level. Donor coordination clearly offers many possible benefits, especially if the national government is able to make coordination work in support of its initiatives, but we should not ignore the risks of coordination. Any discussion about the merits and risks of coordination should differentiate between coordination about programs and projects and coordination of conditionality (as in the cross-conditionality of the IMF and the World Bank with the PRGF and PRSC).

The EBRP has not led to an increase in basket funding, in large part because many bilateral donors do not feel that the base conditions for this form of assistance have been met. Although there are many reasons to want to see more donor coordination, one needs to ask whether it is appropriate for bilateral basket funding to be held up by problems negotiating a PRGF. There could be merit in bilateral donors like Sida judging the conditions for basket funding independently, but then promoting coordination among all donors who believe that the country is ready for programmatic aid. These issues will be important points of discussion for the bilateral donor community.

A further recommendation is that this aid be conditioned, not on a plan, but on evidence of concrete progress in the implementation of policies and programs, as well as on the efficient and transparent management of the funds. In fact, the Bolivian experience suggests that, in general, there would be merit in moving towards the conditioning of aid to *ex post* results, rather than on the creation *ex ante* of plans like the PRSP.

In general, it would be helpful if the donor community and the international financial institutions showed more interest in conducting *ex post* evaluations of their own projects and programs, and in supporting (and insisting on) evaluations of government programs, to promote learning about poverty reduction activities. Supporting the government's efforts to implement the major component programs of the EBRP would be a concrete step in this direction and would contribute to filling the knowledge gap about the poverty impact of government programs.

The fact that the EBRP has not achieved, even in the medium term, the goals set out for the HIPC II Initiative suggests that now is a good time to reflect on the weaknesses of this approach to accelerating poverty reduction in Bolivia and in other countries.

Given that institutional capacity in the municipalities seems so low, it would be useful to promote a debate about the appropriate role of municipal governments in poverty reduction and to insist that the government take more leadership in the development of institutional capacities in local government (with its own initiatives or through the coordination of donor and NGO efforts). More generally, more research, creative thinking, and discussion is clearly needed about how to achieve pro-poor growth and rural development, about the role of macroeconomic policies in poverty reduction, and about the links between social investments and the reduction of income poverty.

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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