JANUARY 2008 • NIEK DE JONG, JUAN CARLOS AGUILAR, KRISTIN KOMIVES

Evaluation of the Poverty Reduction Strategies In Latin America – 2007
Executive Summary – Bolivia

Effective External Aid for Poverty Reduction?

Preface

The PRS Process was a response to widespread concern about persistent and high levels of poverty in many developing countries and about the apparent ineffectiveness of aid in addressing this problem. At the center of the PRS Process was the idea of using a participatory process involving government officials and civil society to develop a national strategy for reducing poverty in each country. Donors committed to support these strategies with aid resources delivered as debt relief and programme aid. They also committed to align their aid programmes with the national poverty reduction strategies.

The Swedish International Development Cooperation Agency (Sida) asked the Institute of Social Studies (ISS) in The Hague to conduct a study to monitor and evaluate the PRS processes in three countries of Latin America that are eligible for debt relief: Bolivia, Honduras, and Nicaragua. The study was conducted over five years, beginning in 2003. Since 2003, the PRS process has taken different paths in the three countries. For example, while the PRS continues to be an important document in Honduras, in Bolivia no one talks about the PRS process anymore. Adapting to these changes, the annual reports have touched on topics beyond the strict confines of the PRS process, also addressing issues of concern for poverty reduction more generally.

Five reports are published each year: three country reports about recent developments in the PRS process, one regional report that presents a comparative analysis, and one thematic report on a topic chosen in consultation with Sida each year. The annual reports and the executive summaries in English and Spanish are available on the ISS website (www.iss.nl/prsp). The ISS website also includes background reports about gender, rural development, and education, which contributed to the analysis in the annual country reports.

All of the reports are based on data analysis, a review of available literature, and interviews with national and local-level actors involved in the PRS process. The ISS team has had complete independence in the process of designing, implementing, and financing the studies. The opinions and conclusions expressed in the reports are those of the authors and are not necessarily the opinions and conclusions of Sida.

The 2007 reports, as the final reports in this series, are somewhat different from the reports of previous years, in which recent developments in the PRS process were presented in great detail. The 2007 country reports and regional report present a longer-term view of the

PRS experience, and thus take into consideration the entire PRS period as well as the years preceding the start of the PRS Process. The goal has been to draw lessons and identify trends in foreign aid during the last 12 years. The thematic report also takes a longer-term view on rural development policies in each country and, as a result, does not discuss in detail all of the most recent developments in this sector.

We hope that the 2007 reports will help provoke and deepen discussions about the limited impact of the PRS process in the region and about how to better attack the problem of persistent poverty in Bolivia, Honduras, and Nicaragua.

Kristin Komives
Project Coordinator
January 2008

Monitoring and Evaluation of Poverty Reduction Strategies in Latin America – 2007

Executive Summary of Country Report – Bolivia, 2007

Effective External Aid for Poverty Reduction?

Published by Sida 2008
Department for Latin America
Authors: Niek de Jong, Juan Carlos Aguilar, Kristin Komives
Art. no.: SIDA44958en
ISBN: 978-91-586-8077-7
This publication can be downloaded/ordered from www.sida.se/publications

Institute of Social Studies

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Executive Summary

This is the fifth and final annual evaluation report on poverty reduction policies in Bolivia. It focuses on the efficiency and effectiveness of the external aid received by Bolivia since 1995. It examines in particular whether the PRS process changed external aid modalities and if so, whether these changes enhanced efficiency and effectiveness. The report also evaluates changes in the Bolivian government's commitment and capacity to fight poverty. In contrast to previous years, this report does not focus solely on changes observed in the past year, but rather looks at the trends observed throughout the period 1995-2006.

External aid in a Context of Political Instability

Political developments during the period 1995-2006 have been marked by deeply rooted political instability that has not been conducive to the formulation or optimal implementation of public policies to benefit the poorest sectors. This context has had a negative impact on the effectiveness and efficiency of external aid: it is difficult for cooperation to align itself with unstable policies and disbursements have been adversely affected in moments of political change and instability.

Level and Composition of External Aid

Including external debt relief, Bolivia received approximately US $600 million annually in external aid from 1996 to 2001. External aid increased over the next couple of years—reaching US $1.1 billion in 2003— before gradually declining to US $700 million in 2006. These totals include non-concessional loan disbursements, which are not strictly classified as official external aid. Excluding (non-concessional) loans from the Andean Development Corporation (la Corporación Andina de Fomento, CAF), total external aid fluctuated between US $550 and $850 million annually between 1996 and 2006.

From 1995 to 2006, bilateral aid was given mostly in the form of grants, while multilateral aid was provided mainly in the form of loans. The notable exception to this was aid from the European Commission (EC), which stopped giving loans in the mid 1990s and has substantially increased its grants in recent years.

External debt relief has played an increasingly significant role since 1998, rising from US $27 million that year to US $240 million in 2006. Due to bilateral debt conditions and prior negotiations with the Paris Club, the flow of bilateral relief in HIPC I and II has not been very significant and therefore bilateral creditors decided to "go beyond HIPC II" by offering additional relief. The Multilateral Debt Relief Initiative (MDRI) restored the importance of multilateral relief. External aid figures suggest that, in general, bilateral relief was supplementary, while external aid substitution actually took place through MDRI relief.

According to external aid figures (excluding "Support for the General Treasurer of the Nation," aid to the "Finance" sector and external debt relief), Santa Cruz received nearly 30% of total aid to the departments in the 2001-2006 period, compared to 18.8% from 1995 to 2000. Tarija's share also grew substantially. Per capita aid levels were the highest, and rising, in these two departments where poverty rates in 2001 were relatively low. In contrast, La Paz received much less attention from 2001 to 2006 relative to the preceding period (resulting in a decline in per capita aid and in its share of the total, which dropped from more than a quarter to just 10.7%), even though the poverty rate in that department far surpassed that of Santa Cruz and Tarija. Oruro and Beni also received less aid (total and per capita) after 2000. Pando was the only one of the poorest departments in which per capita aid, as well as its share of total aid to the departments, increased substantially. There was no substantial change in per capita aid or in the share of aid assigned to the other departments.

More Efficiency and Effectiveness due to Programme Aid?

We cannot say for sure whether or not there is a trend toward substituting project support with programme aid in Bolivia. This analysis is complicated by: (i) the lack of complete and consistent data, (ii) the difficulty of classifying by type the various existing agreements in Bolivia, and (iii) the fact that sectoral or budget support agreements have not managed to disburse the amounts anticipated.

We can say, however, that the donor community's commitment to move toward programme aid has become increasingly consolidated over the past six years, albeit amid growing perceptions of the limits and disadvantages of this type of aid. Donors are divided between those who accept the offers of the current administration to mainly fund projects and those that continue to insist on finding a way to work on programme aid. Although the basic conditions that, in theory, constitute prerequisites for programme aid are not present in Bolivia, this has not stopped the trend toward programme-based models. It should be noted that the Bolivian government's attitude toward this type of aid has varied over time.

General budget support—the MDBS/PMAP, SSPSAC I and SSPC II loans, and the IDB loan for the Program to Support Fiscal Sustainability—along with the technical assistance associated with this support, helped reinforce public financial management systems. At the sectoral level, the PASAAS programme and the Education Basket ("Canasta de Educación") were designed to use the country's public finance, monitoring and evaluation, and implementation systems. A number of difficulties have been encountered along the way, however. As a result, sectoral programme aid has replicated some of the characteristics of project support.

Presumably, the conditions attached to programme aid agreements have to do with proper resource management and the achievement of certain pre-established goals. Past experiences with budget support, however, include cases of non-disbursement even when there has been a high degree of compliance with conditionality, as well as adjustments to the terms and conditions for disbursements. The practice of modifying the terms, lowering conditions, or basing disbursement decisions on factors other than compliance with pre-established goals, undermines a results-oriented focus.

Programme support agreements, whether general or sectoral, are meant to reduce transaction costs to the government by (i) establishing a common agreement that eliminates the need for separate arrangements with several donors, (ii) working with national systems to avoid having to create implementation units and to work with the international cooperation's standards, and (iii) reducing donor micromanagement. The government perceives a benefit in terms of reduced transaction costs, at least where donor coordination exists and when it comes to the implementation phase of an agreement. The anticipated reduction in transaction costs, however, does not always materialize. There are examples of programme support from a single donor, such as the IDB's Fiscal Sustainability Support or PASAAS from the European Commission. In these cases, a project modality operates within the programme support programme. The Education Basket also exhibits a certain degree of regression in terms of donor micromanagement. Granting programme support also has high transaction costs for donors.

To summarize, it is unlikely that the changes in modality have had a significant impact on the overall effectiveness or efficiency of external aid to Bolivia. Projects continue to represent the main type of aid and not all of the anticipated benefits from a shift toward coordinated programme support have materialized in practice.

Donor Commitment

In the 1980s and early 1990s, donor aid conditionality placed the greatest emphasis on issues such as economic stabilization and public finance. Subsequently, donors began to include a poverty reduction focus as an important condition in their operations. In the context of HIPC II and the launching of the PRS process, international cooperation imposed a new condition requiring the Government of Bolivia to prepare a Poverty Reduction Strategy Paper with broad civil society participation. Today, donors continue to make the fight against poverty a condition for their involvement, although the discourse has been toned down and they do not request an updated PRSP as such.

The hope was that a stronger donor commitment to support for poverty reduction would translate into a results-oriented approach to the conditionality attached to their agreements with Bolivia. In practice, however, no major shifts have been observed in this regard. While there have been more results-oriented conditions imposed since the PRS process began than previously—the MDGs for example—, process-oriented conditions, such as the approval of certain laws, continue to abound.

Although some donors evaluate their aid strategies to Bolivia, donors in general do not contribute enough to the development of a culture of evaluation and incorporation of the lessons learned into the programmes and projects they fund in Bolivia. The necessary support has not been forthcoming for the construction of a baseline and for the production of regular statistical data to ensure that government actions are more results oriented.

It would appear that international cooperation has a stronger commitment to supporting government leadership and ownership of policies than before the PRS process began. It is important to note that while, at the level of discourse, various donors have displayed an interest in harmonizing and coordinating their operations, many of them never manage to do so in practice.

With respect to the situation beginning in 2006, there seems to be a conflict between the vision of political support for the Morales administration at the headquarters of donor agencies and the reality faced by their local missions, which in the day to day, have been unable to engage in dialogue with the government and move forward in the discussion of a development agenda.

Government Commitments and Capacity

The political discourse on poverty began in the mid 1990s, but changed in 2001 with the emergence, in the international context, of the fight against poverty in the PRS framework. This was first articulated in Bolivia as a struggle to meet basic needs, which was followed by growing attention to income generation and productive development (2003–2005). The emphasis more recently has been on an “integral vision” which aims not to reduce poverty, but rather to “eradicate” it completely.

Throughout the period 2000–2006, more emphasis was put on developing new strategies than on evaluating experiences, implementing new policies or improving management.

Bolivia’s social and economic policy has exhibited a great deal of continuity over the past ten years. The early years of the PRS did not change this and the Morales administration initially experienced difficulties in translating its proposals into policy. More recently, the country is beginning to implement new programmes and policies with resources and ideas from new cooperation sources (Cuba and Venezuela).

From 1995 to 2006, the percentage of GDP devoted to pro-poor social spending grew from 9.1% to 13.3%. Current expenditure in education and health accounts for over half of the pro-poor social expenditure. During the years of greatest political uncertainty, the pro-poor social capital expenditure dropped to less than 5% of GDP, although preliminary figures indicate that it recovered in 2006. The only social sector that has experienced a real reduction in spending since 2000 is the basic sanitation sector. Spending in urban development, rural development and roadways has nearly doubled since the PRS process began.

Poverty and Inequality

Poverty estimates published by INE in 2006 show that urban and rural poverty rates rose from 1999 to 2002. A counterfactual microsimulation analysis suggests that this increase can be attributed in part to the rise in unemployment observed during the same period.

According to new INE estimates, the poverty rate did not change significantly between 1999 and 2003–2004 (63%), but has begun to decline since then, with preliminary estimates showing a rate of 59.9% in 2006. The figures suggest that rural poverty declined more than urban poverty during the period 1999–2006. While poverty among indigenous groups declined from 73.1% in 1999 to 69.3% in 2006, the poverty rate for the non-indigenous population rose slightly (45.1% to 46.0%). According to recent estimates, the Gini index (of income) for the total population and the rural population remained virtually unchanged throughout this period, although the income gap is wider in urban areas today.

These inequality estimates are inconsistent with those derived from a counterfactual microsimulation analysis, which shows that inequality increased from 1999 to 2002, a change due in part to rising unemployment and changes in wages among the employed population. This analysis also suggests that inequality did not decline between 2002 and 2005, since reductions in inequality associated with labour market shifts were offset by increases due to other factors.

Efforts to measure and evaluate progress based on poverty reduction indicators (MDGs, income, Gini, and so forth) will continue to be hampered as long as permanent information systems are unavailable, are not located in the responsible institutions (INE and sector ministries for administrative record-keeping), and the latter lack the necessary resources to feed these systems in a regular and timely manner. In recent months, the discussion has returned to the need to develop baseline data on the status of various indicators, including those necessary to monitor progress in one of the centrepieces of the National Development Plan (PND), namely the Communities in Action ("Comunidades en Acción") programme.

Coordination and Information

One alternative for enhancing donor-government harmonization and coordination might be that donors agree on who will cooperate in which sector in a priority manner and communicate this to the government. In this way, the government will be clear about which donors are prioritizing which sectors or issues and about the specific resources available. The donor community could make a particular donor responsible for policy discussions and progress in programme and resource implementation. This donor would be responsible for reporting to its colleagues regularly on those issues. This could even take the form of delegated cooperation. In this way, the transaction costs to the government (and the donors) could be lowered and coordination meetings would involve fewer participants on the side of international cooperation.

Evaluating the efficiency and effectiveness of different external aid modalities requires detailed, consistent and updated information on external aid by type, source, target, and use of funding. This evaluation exercise and others undertaken for different purposes have exposed the shortcomings of the information systems currently used by the government, particularly the VIPFE. Serious problems have been encountered with the consistency of information that could limit the scope of any evaluation. More importantly, due to its serious limitations, it does not seem that the external finance information system is actually guiding decision-making or ensuring regular monitoring of performance and efficiency in the use of those resources.

Recommendations

Based on the analysis conducted, the following recommendations are directed toward the government, international cooperation, and toward the government and/or international cooperation.

For the Government

- Build leadership in the management of international cooperation based on public policies (sectoral and otherwise) and within a priority and medium-term expenditure framework to which the international cooperation can align itself.
- Manage financing options prudently to make maximum use of opportunities to obtain grants or concessional loans, while limiting non-concessional loans or non-concessional internal debt.

- Make a serious effort to improve efficiency in public management in order to implement plans and mobilize available resources to eradicate poverty.
- Substantially improve the SISFIN to ensure the quality, consistency and timeliness of external financing information.
- Make sure that the information from SISFIN is consistent with that generated by the BCB through balance of payment information and donor surveys. In any case, the system should at least analyze and explain the reasons for any discrepancies between the two sources.

For International Cooperation

- Do not rush the pace of assimilation of concepts such as sectoral support and the like, which take time and require adaptation on the part of public management, as this impinges on the quality of management and limits outcomes in the short term.
- Avoid the attitude of trying to leave a mark and innovate (do something different) and of not being the one that is following what is being done. This attitude is not always positive and can lead to problems with governments.
- Move forward in the discussion about donor specialization. The European Union's Code of Conduct seems to offer an interesting path towards improved aid complementarity, although certainly there are also many challenges to its implementation, among them the political will of donors outside of the European Community.
- Donors should be cognizant of the potential tension between the technical assistance necessary to correct shortcomings in the government's leadership and capacity to develop and implement policies and programmes on the one hand, and on the other, the fact that technical assistance can have the effect of diminishing national ownership of programmes and impeding the institutionalization of solutions to gaps in governmental capacity.
- If donors opt for projects, ensure that the projects and their implementation methodology are as consistent as possible with the receiving government's norms and priorities, as well as its implementation methods. Avoid damaging what has been carefully built over time.

For the Government and/or International Cooperation

- Make it a priority to improve information systems, so that baselines can be established from which to discern future progress based on implementation of proposed policies and the construction of systems to monitor and track relevant indicators.
- An improved project focus within sectoral programmes could help strengthen implementation capacity and include more donors in a framework of sectoral support, in addition to reinforcing national government's ownership of the objectives pursued with that instrument.
- Benefit from the experience of the education sector, which developed and improved its financial systems as part of the basket instead of making this a prerequisite.
- When sectoral programmes are designed, it is important to take into account the roles of sub-national governments in their implementation and avoid smothering competencies or duplicating efforts in ways that lead to inefficiency.

- Continue reflecting on which support modalities are most appropriate in each particular case, including the potential limitations of a sectoral focus (compared, for example, to a multi-sectoral focus).
- Recognize that existing policy has not achieved major progress in the area of poverty. Evaluate experiences to try to identify the factors that have limited the impact of pro-poor programmes and projects. Promote an open, honest and informed dialogue about these limitations—as well as the positive elements—of current policy and practice.
- It is important to maintain ongoing, effective dialogue on a variety of issues.
- It is important to extract the positive aspects of previous experiences as often as possible.

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.

Sida

SWEDISH INTERNATIONAL
DEVELOPMENT COOPERATION AGENCY

SE-105 25 Stockholm Sweden
Phone: +46 (0)8 698 50 00
Fax: +46 (0)8 20 88 64
sida@sida.se, www.sida.se