Office of
Evaluation
and Oversight

Country Program Evaluation

Bolivia

2011-2015

Inter-American Development Bank
October 2015

This document presents the results of the IDB Country Program Evaluation (CPE) with Bolivia for the 2011-2015 period. It is the third independent evaluation of the IDB's program with Bolivia. The first CPE covered the 2004-2007 period, which was marked by a process of political transition. This culminated in the victory of Movimiento al Socialismo [Movement to Socialism] (MAS) in the 2005 elections and the accession of Evo Morales to the presidency in 2006. The second CPE covered the 2008-2010 period, which was characterized by profound institutional changes following enactment of the new Bolivian Constitution. This CPE (2011-2015) evaluates the IDB's program with the Government of Bolivia for the 2011-2015 period. The IDB's strategy with Bolivia falls within the framework of the 2010-2015 Government Plan, which is organized around four strategic pillars: Bolivia Democrática [Democratic Bolivia], Bolivia Productiva [Productive Bolivia], Bolivia Digna [Dignified Bolivia], and Bolivia Soberana [Sovereign Bolivia].

The evaluation was conducted in accordance with OVE's mandate (RE-238) and the Protocol for Country Program Evaluation (RE-348-2). Its main objectives are to facilitate accountability and identify lessons learned that can improve the Bank's future program.

The report is organized into four chapters. Annex I analyzes the country context in which the IDB's program was developed, including the political, economic, and social contexts. Chapter II analyzes the financial relevance of the program and its operational portfolio during the 2011-2015 period. This chapter also includes an analysis of efficiency in program implementation. Chapter III analyzes the relevance of the models of intervention set out in the country strategy, and the sector outcomes of the portfolio, with emphasis on sustainability. Lastly, Chapter IV presents conclusions and recommendations.

The Sector Annexes present complete information regarding trends in the sectors prioritized by the IDB in the country strategy, as well as sector challenges during the evaluation period and the relevance of IDB action in each sector. Annex I analyses the loan and technical cooperation portfolios, the main implementation issues, and portfolio outcomes. Two supplementary technical studies were carried out: a macroeconomic and public finance report (Annex II) and a report on the decentralization process and the trends of unmet basic needs index at the subnational level (Annex XI).

Original: Spanish

Country Program Evaluation:

Bolivia 2011-2015

Office of Evaluation and Oversight, OVE

Inter-American Development Bank
October 2015

Office of Evaluation and Oversight
1350 New York Avenue, N.W.
Washington, D.C. 20577
www.iadb.org/evaluation

RE-483-1

Table of Contents

Abbreviations and Acronyms

ABC	Administradora Boliviana de Carreteras [Bolivian Highway Administration]
BCB	Central Bank of Bolivia
CAF	Andean Development Corporation
CAN	Country Department Andean Group
CPD	Country Program Document
CPE	Country Program Evaluation
CS	Country Strategy
ECD	Early Childhood Development
ENDE	Empresa Nacional de Electricidad [National Electricity Company]
EPSA	Empresa Pública Social de Agua y Saneamiento [Public Social Water and Sanitation Company]
FDI	Foreign direct investment
FPS	Fondo Nacional de Inversión Productiva y Social [National Social and Productive Investment Fund]
FSO	Fund for Special Operations
GAMs	Gobiernos Autónomos Municipales [Autonomous Municipal Governments]
GofB	Government of Bolivia
IMF	International Monetary Fund
INE	National Statistics Institute
LMAD	Ley Marco de Autonomías y Descentralización [Autonomies and Decentralization Framework Law]
MDRI	Multilateral Debt Relief Initiative
NFPS	Nonfinancial public sector
OMJ	Opportunities for the Majority
OVE	Office of Evaluation and Oversight
PBL	Policy-Based Loan
RVF	Red Vial Fundamental [Primary Road Network]
SCF	Structured and Corporate Financing Department
SFW	Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean
SIGEP	Sistema de Gestión Pública [Public Management System]
TFFP	Trade Finance Facilitation Program
UDAPE	Unidad de Análisis de Políticas Sociales y Económicas [Social and Economic Policy Analysis Unit]

Acknowledgements

This evaluation was conducted by a team consisting of Veronica González Diez (Project Team Leader), Oliver Azuara, Maria Elena Corrales, Alejandro Guerrero, Oscar Quintanilla, Odette Maciel, Adriana Molina, Julie Biau, and Ana Ramirez-Goldin, under the direction of Cheryl Gray, OVE Director.

The Bolivian State embarked upon a process of expanding its role in the economy, taking control of strategic economic sectors in the country through a process of nationalization.

© OVE, 2015

Executive Summary

Bolivia has undergone a process of profound political, economic, and social transformation in recent years. In the political sphere, the triumph of Movimiento al Socialismo [Movement to Socialism] (MAS) in 2005 and the accession of Evo Morales to the presidency in 2006 marked a process of redefinition of the role of the Bolivian State, framed within the new Bolivian Constitution (2009). Based on these changes to the overall framework, the Bolivian State embarked upon a process of expanding its role in the economy, taking control of strategic economic sectors in the country through a process of nationalization. The State continued to gradually grow, including an expansion of its role in public enterprises. For its part, the approval of the Autonomies and Decentralization Framework Law (2010) was aimed at consolidating the responsibilities and functions of subnational levels of government. Although this redefinition gave rise to significant progress in terms of political economic stabilization, Bolivia faces considerable challenges in terms of consolidating the reforms. Moreover, the ability of some subnational entities to effectively assume the new responsibilities derived from the constitutional mandate is limited.

In economic terms, the Bolivian economy has experienced sustained growth, although the rising share of hydrocarbons within the economic structure is showing signs of medium-term vulnerability. Economic growth has facilitated a reduction in public debt as a percentage of GDP, while external debt forgiveness has paved the way for its restructuring. Foreign direct investment reached record levels in 2013 and net international reserves are among the highest in the region. In terms of public finance, the nonfinancial public sector balance has been in surplus since 2006, but deficits are projected for 2014 and 2015. Favorable economic conditions allowed Bolivia to issue sovereign debt on the global financial markets. Although public investment grew steadily over the last decade, domestic private investment is relatively low. Despite substantial public investment in infrastructure, productivity indicators continue to lag behind. Looking ahead, the Government of Bolivia's (GofB) investment plans estimate levels of investment that triple those executed over the last six years. Financing an investment program of this kind requires major external and private sector contributions, as well as the strengthening of public investment systems. In the medium term, the rising share of hydrocarbons in the country's economic structure increases the economy's vulnerability to shocks stemming from changes in international hydrocarbon prices, and macrofiscal sustainability could be impacted.

In the social arena, Bolivia has taken significant steps to reduce rates of poverty and inequality and strengthen the social protection system. The total population living in poverty fell from 60% to 39% between 2007 and 2013, while extreme poverty dropped from 38% to 19% over the same period. There has been major progress with respect to most social indicators and indicators of access to basic services. This is the case for indicators of coverage for drinking water and basic indicators for the education and health systems. Nonetheless, these indicators hide considerable regional inequalities, and challenges persist in relation to sector financing and execution capacities.

The IDB's Country Strategy (CS) for the 2011-2015 period was the first IDB strategy with the Government of Bolivia to coincide with the political cycle that began with the reelection of President Morales in 2010. The relevance of the country strategy was enhanced by the alignment of its strategic objectives with the objectives of the 2010-2014 Government Plan. For its part, the IDB's operational program was consistent with strategic objectives under the CS in terms of priority sectors, although the lack of reference in the strategy pillars to Bank positioning in the area of private sector development is notable. The sector distribution of the portfolio during the strategy period is slightly different from that of earlier programming cycles, with the social sectors—particularly health—accounting for a higher share.

After the Andean Development Corporation (CAF), the IDB remains one of the principal financial partners for development in Bolivia. The size of the IDB's operational program in Bolivia (US$1.28 billion in sovereign-guaranteed loans and US$58 million in non-sovereign guaranteed loans) tripled in the 2011-2015 period compared with previous programming cycles. CAF was Bolivia's main financial partner, with a portfolio of US$1.88 billion in the 2011-2014 period, concentrated mainly in infrastructure (particularly transportation). The Bank-financed portfolio consists mainly of investment loans (69%). Policy-based loans accounted for 26% of the portfolio. The majority of technical cooperation funding was used to support design and implementation of the loan portfolio. The portfolio is geographically concentrated, with significant participation of subnational governments, but limited use of country systems (excepting SIGMA/SIGEP which is used for budgetary purposes).

Bolivia is one of the four countries eligible for IDB concessional funding (Fund for Special Operations - FSO), but the change in the country's socioeconomic conditions have changed its levels of concessionality. In 2012, there was a change in the degree of concessionality available to Bolivia, with a shift from a blend of 75% Ordinary Capital (OC) - 25% FSO to the 80% OC -20% FSO scenario. This paved the way for annual sovereign-guaranteed loan approvals totaling more than US$300 million. The average size of IDB operations with Bolivia doubled over the most recent period. The structure of IDB financing was adjusted once more (a blend of 85% OC and 15% FSO), raising the ceiling for financing to Bolivia from US$475.1 million in 2015 to US$633.4 million in 2016.

The IDB reactivated disbursements during the evaluation period, thus reducing the age of the portfolio. However, despite this progress, the efficiency of Bolivia's investment portfolio in execution is below average for countries belonging to the Andean Group (CAN) and FSO countries combined. The marked increase in disbursements is partly explained by improvements in IDB internal management, particularly at the level of the Country Office. Project preparation and execution costs improved during the country strategy period, albeit with variations across sectors and executing agencies. Preparation and execution times remained constant, despite improvements in project management. The limited efficiency of the IDB portfolio is associated with the challenges posed by the country's economic situation and a series of implementation problems, including the low quality of pre-investment; limitations associated with the narrow domestic market and limitations on international markets for goods and services procurement; the growing involvement of subnational governments in the financing and management of operations, and the institutional agreements that this necessitates; excessive workloads in the main executing agencies; delays in implementing community development components; the complexity of managing environmental and social issues (principally in the case of transportation projects); and institutional weaknesses in some public agencies.

In general, the IDB's strategy with Bolivia prioritized interventions that were relevant to the country's development challenges, supporting achievement of the objectives set out by the Government of Bolivia and by the Bank in its CS.

Bolivia productiva: The main focus under the CS has been on productive infrastructure, with a particular bias toward transportation. The Bank remained an effective partner for development of the road sector. The IDB continued to support the strategic objectives of expanding and rehabilitating the primary road network, and it began to support the institutional framework required for management of the sector with a policy-based loan. In terms of results, the Bank intervened on 18.8% of the paved primary road network (1,126 km) during the evaluation period, with periodic and routine maintenance, rehabilitation, and construction works. IDB support for sector institutional reforms has been timely but remains insufficient to provide the sector with the instruments needed to effectively drive its transformation, particularly in terms of efficiency and sustainability.

The CS and its strategic lines of intervention in the electricity sector partially responded to the government's strategic objectives, without entering into the process of institutional transformation in the sector. The IDB approved only one loan during the CS period, for a new transmission line. This loan is progressing in a satisfactory manner, anchored in the adequate executing capacity and experience of the Empresa Nacional de Electricidad [National Electricity Company] (ENDE). In terms of results, the IDB has made progress in its objective of increasing the amount of energy generated from renewable sources. This has been achieved through legacy portfolio projects associated with the Misicuni dam for hydroelectric power and the mitigation of the environmental and social impact of the dam's construction. However, these projects face a number of sustainability risks, as a result of weak interagency coordination.

Bolivia digna: Although the IDB portfolio in the social sectors doubled compared with previous cycles, CS objectives for the social sector were ambitious in terms of expanded service coverage. In health, the country strategy positioned the IDB fundamentally in the area of hospital infrastructure, supporting the government's agenda of service expansion. Although the programs were effective in achieving expected results, the health sector investments face management and operational issues, as well as long-term sustainability challenges. Outcomes in the education sector are more elusive, given that the project has been subject to major delays. In water and basic sanitation, IDB programs supplemented government programs to expand coverage, supporting comprehensive solutions in disadvantaged areas. These had satisfactory results in terms of infrastructure expansion, but limited results in terms of institutional and community development. Nonetheless, one of the fundamental features of the IDB's intervention was its targeting. In the cases of health, early childhood development, and water and sanitation, the relevance of IDB investments was enhanced by its focus on areas with greater needs in terms of access to services.

Bolivia democrática: The IDB continued to support far-reaching reforms in the area of public management, fiscal policy, and decentralization. The programs achieved a number of improvements in public financial management and in the consolidation of financial management systems at the national and subnational levels. The Bank's portfolio in the sector grew markedly, giving the IDB greater leadership in the policy dialogue on decentralization, fiscal policy, and financial management issues. The Bank supported policy reforms that were relevant to moving the process of decentralization forward in the country. In terms of results, while tangible results were achieved, the almost exclusive emphasis on legal changes, with measures of limited structural depth, limited effectiveness. As a medium-term effort, the Bank approved a programmatic series to improve public expenditure effectiveness, supporting significant reforms of medium depth with partial results. Although no new budget law was approved, the approved reforms consolidated advances in the area of budget management, as well as improving the multilevel integration of fiscal management systems, introducing accountability mechanisms in relation to performance, promoting the execution of public expenditure, and strengthening the transparency framework.

Looking ahead, the Bank faces varying conditions in the economic and political environment, as well as challenges associated with consolidating processes of reform and adaptation to the constitutional mandate. Based on these considerations and within the framework of the General Economic and Social Development Plan (2015-2020), OVE recommends the following:

1. Continue to support the implementation and consolidation of ongoing reform processes supported by the Bank during the evaluation period, while maintaining a technical and policy dialogue based on a long-term vision that allows these processes to move forward within government plans. In the sectors where the IDB has established a position through investment portfolio and where policy-based projects have also been approved (water and transportation), it is important to support consolidation of the reforms that have begun. In the sectors where the Bank has gained space through recent technical cooperation efforts and investment loans (health, energy), it would be equally important to deepen the policy dialogue regarding structural aspects of these sectors' operations. In the next program of reforms, within a tighter fiscal context, the efficiency of decentralized public expenditure could also become increasingly important.

2. Seek ways of supporting the Bolivian government's proposals in building the capacities of subnational entities (necessary for progressive decentralization) and in the strengthening of country systems and capacities to coordinate across different levels of government. To this end, the IDB may consider establishing a formal agreement with the central government that allows it to progressively improve country systems and to work at the subnational level, reducing transaction costs and problems of multilevel coordination. Moreover, in the context of negotiations for a fiscal agreement, the Bank may also expand the focus incorporating the challenges of limited subnational management capacities and ensuring consolidated fiscal sustainability.

3. Place greater emphasis on sustainability issues in IDB financed investments, so all projects systematically incorporate mechanisms to ensure operation and maintenance of services. To this end, the IDB could build on the experience of equipment maintenance arrangements developed in the health sector, or develop other agreements for transferring infrastructure works with mechanisms to ensure their sustainability.

4. Seek spaces for supporting the private sector in areas that help to boost productivity, and in which the Bank has a comparative advantage through involvement of its private sector windows. To this end, new approaches, products, and combination of financial and nonfinancial instruments offered as a result of consolidation of the Bank's private sector windows could be incorporated fully into the new strategy.

1

Average annual GDP growth rose from 4.6% between 2006 and 2010 to 5.6% in the 2011 2014 period. The 2013 GDP growth rate (6.78%) was the highest recorded in the country in the last 40 years.

© OVE, 2015

1 Context of the Country Program, 2011-2014

A. Macroeconomic and public finance context

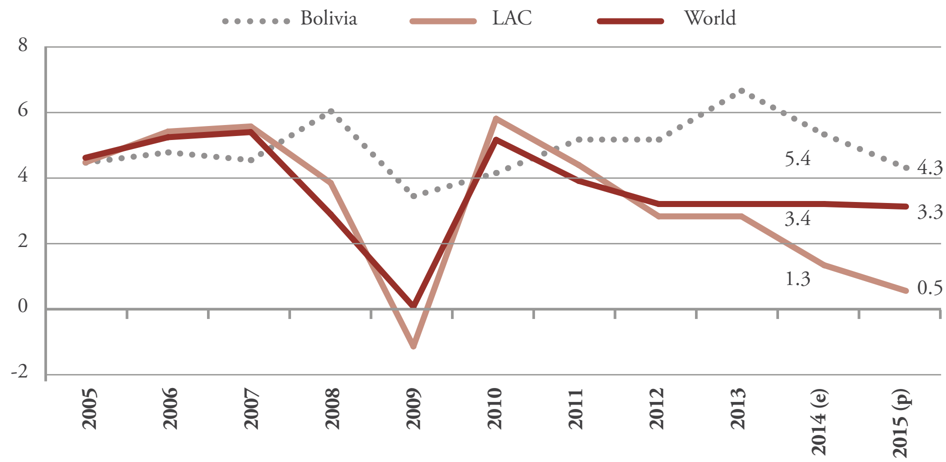
The Bolivian economy has experienced sustained growth in recent years, but the economic structure is beginning to show signs of long-term vulnerability. Average annual GDP growth rose from 4.6% between 2006 and 2010 to 5.6% in the 2011 2014 period (Figure 1.1). The 2013 GDP growth rate (6.78%) was the highest recorded in the country in the last 40 years. GDP growth closed 2014 at 5.37%, and the projection for 2015 is 4.3%. Economic growth in Bolivia is explained largely by the contributions of manufacturing production and the energy sector (Figures 1, 2, and 3). Although Bolivia has a diverse economic structure (Figure 4) and has accumulated substantial international reserves that support stability, the rising share of hydrocarbons in the economic structure is showing signs of vulnerability to the risk of shocks stemming from changes in international prices. (Figures 5 and 6).[1]

Economic growth and external debt relief have reduced public debt as a percentage of GDP and facilitated debt restructuring. While the external debt was equivalent to 52% of GDP in 2005, in 2013 it was 18%, placing the country at an optimal level of solvency (Figures 7 and 8). In terms of the type of creditor, 66% of the stock of external public debt in 2013 was accounted for by multilateral organizations, of which CAF accounted for 47%, followed by the IDB (34%) and the World Bank (14%) (Figure 9). While the external debt stock in 2005 was double the level of domestic debt, in 2013 the levels were similar.[2] The external debt stock of subnational governments rose from US$141 million in 2005 to US$231 million in 2013 (Figure 10). Debt forgiveness also facilitated a reduction in public external debt from US$4.9 billion to US$2.2 billion between 2005 and 2007.[3] High rates of economic growth have positioned Bolivia in the category of middle-income countries. For this reason, access to concessional loans with low interest rates is increasingly limited.[4]

Figure 1.1

Annual real GDP growth (%)

Source: Own calculations based on data from Banco Central de Bolivia (BCB), World Economic Outlook, and the International Monetary Fund (IMF). *Note:* 2014, estimated; 2015, projected.



Bolivia's trade balance has shown surpluses since 2004, while foreign direct investment (FDI) has reached record levels, and net international reserves as a percentage of GDP are among the highest in the region. In 2014, the trade surplus was US$1.7 billion (5% of GDP). Nonetheless, in the first quarter of 2015, Bolivia recorded a trade deficit of US$36 million, after 11 years of surpluses. The majority of exports are linked to hydrocarbon extraction (54%) and the manufacturing industry (24%), while imports consist mainly of raw materials and intermediate goods (47%), followed by capital goods (31%) (Figures 11 and 12).[5] In 2013, FDI was equivalent to 5.7% of GDP—almost nine times more than in 2003. However, in 2014 net FDI fell by 63%, in part due to a reduction in mining investments stemming from the decline in metal prices. Part of FDI consists of reinvested profits. Net international reserves ended 2014 at US$15.1 billion (46% of GDP).[6]

In terms of public finances, the nonfinancial public sector (NFPS) balance has been in surplus since 2006, but deficits are projected for 2014 and 2015. The highest surplus was recorded in 2006 (4.47% of GDP), coinciding with nationalization of the hydrocarbon industry. In 2013, the surplus reached 0.65% of GDP. Deficits of approximately 3.2% and 3.6% of GDP are projected for 2014 and 2015, respectively (Figure 13), as a result of a drop in export prices for the commodities exported by Bolivia. Revenues and expenditure remained relatively constant over the 2008-2010 period, but both have seen an upward trend since 2011. Revenues rose from 32% of GDP in 2005 to 46% in 2014, while expenditure increased from 34% of GDP in 2005 to 48% in 2013 (Figure 14). Tax collection also increased, but this is strongly concentrated (60%) in general consumption taxes and the direct tax on hydrocarbons (Table I.1).

Favorable conditions in the economy and public finances allowed Bolivia to issue sovereign debt on the global financial markets. In 2012 and 2013, the country issued sovereign bonds totaling US$1.0 billion on the financial market in New York, with a maturity of 10 years and an interest rate of 4.875%, primarily to finance infrastructure projects. The rating agencies upgraded Bolivia based on economic growth, the fiscal and current account surpluses, the reduction in public debt, and the level of international reserves.[7]

Public investment has grown steadily over the last decade. In contrast, domestic private investment is relatively low. Executed public investment has practically doubled as a proportion of GDP: in 2005 it was equivalent to 6.6% of GDP (US$629 million), while in 2013 it reached 12.4% (US$3.780 billion).[8] In terms of financing sources, while 63% of public investment stemmed from external sources in 2005, in 2013 this type of financing accounted for only 18% of the total (Figure 15). In terms of sectors, 40% of gross investment in 2013 was channeled into infrastructure, followed by the social sector at 29% and the productive sector at 27%. However, the impact of public investment on growth has failed to meet expectations. Looking ahead, the Bolivian government's investment plans involve investment levels that are triple those executed over the last six years (see Sector Annexes). Financing an investment program of this kind requires major external and private sector contributions, as well as the strengthening of the public investment systems. However, despite the fact that the new Constitution (2009) gives priority to domestic investment over foreign investment, the risk aversion of local private investors is an issue of concern for the government.[9]

Despite substantial public investment in infrastructure, productivity indicators continue to lag far behind. Within the Global Competitiveness Index, Bolivia ranks ninety-ninth in infrastructure out of 144 countries worldwide. Productivity is affected by low levels of interconnectivity in the highway network and the weaknesses in productive infrastructure. Bolivia's export cost over the period was higher than average for the region, at US$1,425 versus US$1,243 per 20-foot container (Doing Business, 2012).[10] Other issues that affect productivity/competitiveness are limited access to financing, labor regulations, and inefficient government bureaucracy.[11] Lastly, the informal employment rate in Bolivia is among the highest in the region.[12]

B. Social development and poverty reduction

Bolivia has expanded social spending and reduced levels of poverty and inequality. Social spending by the central government amounted to 17% of GDP in 2013, about five percentage points higher than in 2005. Bolivia made great efforts in terms of investment and institutional modernization to overcome levels of exclusion. The total population living in poverty fell from 60% to 39% between 2007 and 2013, while extreme poverty dropped from 38% to 19% over the same period (Figure 16), albeit with significant regional variations (Figure 17). Inequality, as measured by the Gini coefficient, improved from 0.58 (2005) to 0.46 (2012).

Bolivia has expanded social spending and reduced levels of poverty and inequality. The total population living in poverty fell from 60% to 39% between 2007 and 2013, while extreme poverty dropped from 38% to 19% over the same period.
© OVE, 2015

The GofB has provided support for a social protection system by implementing programs with nationwide transfer mechanisms. Three transfer programs cover 36% of the population: (i) Bono Juancito Pinto (2006), which provides annual subsidies of US$29 as an education incentive, covering a little over 2 million beneficiaries; (ii) Renta Dignidad (2008), which provides grants of US$344 to US$434 for those aged 60 years and above; and (iii) Bono Juana Azurduy (2009), which provides a total payment of US$263 to new mothers during the months of their pregnancy and up to two years after giving birth.

There have been significant improvements in social indicators. Nonetheless, challenges persist in relation to regional inequalities and sector financing and execution capacities. Bolivia has made important strides in reducing rates of illiteracy, maternal and child mortality, school dropout, and malnutrition, and in expanding coverage of primary and secondary education (Table 1.1). Drinking water coverage (82% in 2014) surpassed the Millennium Development Goal (78.5%). Basic sanitation coverage increased (55% in 2014), but remains below the Millennium Development Goal (65%). Differences among regions and between urban and rural areas are marked (Figure 18), and correlated with the capacity of operators.[13] In health, institutional delivery (birth) coverage ranges from 60.2% in Pando to 92.5% in Beni (2012). In education, the population in urban areas has 9.3 years of schooling on average, while in rural areas the level is 5.9. The dropout rate at the secondary level is higher in rural areas (5.4%) than in urban areas (3.9%). In water, 6 in 10 people in rural areas have access to drinking water, compared with 9 in 10 in urban areas. In electricity, urban coverage levels (2014) exceed 98%, while more than 40% of the rural population has no access to this service. The marked process of internal migration to urban areas—La Paz, Cochabamba, and Santa Cruz—is placing pressure on economic and social structures. The urban unemployment rate fell, although the level of informality is one of the highest in the region (approximately 70%).

Table 1.1: Selected social indicators

Education		
Illiteracy	13.3% (2001)	5.1% (2012)
Average years of education (population age 15 or more)	7.6 (2001)	9.2 (2011p)
Net primary enrollment rate	93.3% (2001)	99.8% (2012p)
Net primary completion rate (sixth grade)	32.4% (2001)	55.5% (2012p)
Net secondary enrollment rate (12 to 17 years of age)	63.8% (2001)	72.2% (2012p)
Net secondary completion rate	16.6% (2001)	27.2% (2012p)
Secondary-level dropout rate	8.1% (2001)	4.2% (2013p)
Health		
Institutional delivery coverage (%)	59% (2005)	71% (2013)
Infant mortality rate (per 1,000 live births)	50 (2008)	46 (2013)
Maternal mortality rate (per 100,000 live births)	229 (2003)	180 (2013)
Chronic malnutrition (less than 3 years of age)	32% (2003)	19% (2012)
Employment[14]		
Open unemployment rate, urban	8.2% (2005)	3.2 % (2012)
Water and Basic Sanitation		
Population with access to drinking water (%)	72% (2001)	82.3% (2014e)
Population with access to basic sanitation (%)	40.7% (2001)	55.1% (2014e)

Source: Education: for illiteracy: National Statistics Institute (INE, 2001 and 2012 censuses); for the rest of the indicators: Ministry of Education. Health: for institutional delivery: Unidad de Análisis de Políticas Sociales y Económicas [Social and Economic Policy Analysis Unit] (UDAPE); Health Ministry; United Nations Development Programme (UNDP); for the infant mortality rate: Encuesta Nacional de Demografía y Salud [National Demographic and Health Survey] (ENDSA), 2003 and 2008; Health Ministry; for chronic malnutrition: UNDP-UDAPE. Employment: INE-UDAPE. Water and Sanitation: National Basic Sanitation Plan, 2008-2015 and census-based estimates (Annex VI).

C. Political and institutional context

Bolivia has experienced a period of intense reorientation of its institutional structures to adapt to the new constitutional framework. The triumph of Movimiento al Socialismo [Movement to Socialism] (MAS) in the 2005 elections and the accession of Evo Morales to the presidency in 2006 marked a process of redefinition of the

Bolivian State as a plurinational State with autonomies, framed within the new Bolivian Constitution (2009). The Bolivian State adopted a more active role in economic development. Among the most significant measures in Bolivia's "new economic model" has been the nationalization of "strategic sectors" as a mechanism for building a productive and industrialized economy.[15] This process began in 2006 with renationalization of the hydrocarbons production chain and subsequent nationalizations in the mining, electricity, telecommunications, and industrial sectors. In 2013, the Bolivian government raised the authorized debt limits for public enterprises through the BCB and enacted the Public Enterprise Law, regulating the sector in a comprehensive manner and establishing parameters for the corporate governance of public enterprises. In 2014, Law 516 on Investment Promotion was enacted. This governs the legal relationship between the State and domestic and foreign investors.

In this context, the Bolivian State grew gradually, expanding its role in public enterprises in strategic sectors. Consistent with the long-term trend, government expenditure grew from 29.8% of GDP in 2005 to 36.3% in 2013 (Figure 19). The public enterprises have become increasingly important: they account for 47% of State revenues, channel 41% of total public spending,[16] and their investments benefit from greater access to public financing. Consolidated current expenditure reached 46% of GDP at the beginning of 2014, while the number of public sector entities rose, from 488 in 2009 to 553 in 2015.[17] The reforms have also included greater civil society participation and oversight in relation to public management. Despite the State's expansion in budget and human resource terms, the Government of Bolivia continues to face challenges associated with the administrative capacities of public institutions. Strengthening the supervision and management of public enterprises is a particular challenge.

A deepening of the decentralization process associated with the new constitutional order led to a substantial transfer of resources and responsibilities to subnational entities. However, these entities face major challenges. The decentralization process was deepened with the approval of the Autonomies and Decentralization Framework Law (LMAD) in 2010. Pursuant to this new legislation, the State channeled Bs 27.484 billion (13% of GDP) in departmental royalties and transfers to departmental governments, municipalities, and public universities in 2013 (Figure 20). Among the multiple challenges created by this institutional transformation are the need to create coordination mechanisms that are both interagency and multilevel (national - municipal - departmental), as well as strengthening accountability (transparency) and reducing disparities in terms of capacity at both the national and subnational levels. Subnational entities—particularly the smaller municipalities—still lack the financial or technical capacity to perform the new functions derived from the constitutional mandate. These weaknesses can be seen in the under-execution of their budgets (Figure 21).

Bolivia's rankings on a number of governance indicators have improved in relative terms, reflecting improvements in government effectiveness. However, scores in regulatory and legislative categories worsened. Compared with the period prior to 2005, the World Bank's Worldwide Governance Indicators improved significantly in the areas of government effectiveness (from the twenty-ninth percentile in 2005 to the forty-first in 2013) and political stability. Indicators related to regulatory quality and the rule of law weakened.

2

The main focus under the country strategy has been on productive infrastructure, with a particular bias toward transportation. The Bank remained an effective partner for development of the roads sector, supporting the strategic objectives of expanding and rehabilitating the primary road network.

© OVE, 2015

2 The IDB's Program in Bolivia

The IDB country strategy for the 2011-2015 period with the Government of Bolivia was the first to coincide with the political cycle that began with the reelection of President Morales. In fact, in the time since President Evo Morales took office in 2006, the Bank has had three country strategies (2004-2007, 2008-2010, and 2011-2015). Given the changes in the political and economic contexts, the first two strategic programming documents were out of date with the political cycle. The Country Strategy for 2011-2015 was based on the 2010 2015 Government Plan, *Bolivia, para vivir bien* [Bolivia, to live well], which is organized around four strategic pillars: Bolivia Democrática [Democratic Bolivia], *Bolivia Productiva* [Productive Bolivia], *Bolivia Digna* [Dignified Bolivia], and *Bolivia Soberana* [Sovereign Bolivia].[18] The country strategy identified seven priority sectors, which in its results matrix are grouped under the strategic pillars laid out by the GofB (Table 2.1).

The IDB's operational program was generally aligned with the strategic objectives in the CS, although there is a notable lack of reference to Bank positioning in the area of private sector development. The IDB's operational program remained focused on the infrastructure sectors,[19] with a portfolio of US$778 million (61% of funding) concentrated mainly in the transportation sector. Approvals in the social sector totaled US$178 million (14% of funding). In the governance sector, approvals reached US$267 million (21% of funding), while the remainder was dedicated to the cross-cutting issue of climate change (previously natural resources) and the private sector. Although "support for private sector competitiveness and sustainable development" was one of the three lines of action under previous strategies (2004 2007 and 2008-2010), the 2011-2015 country strategy does not explicitly mention support to the private sector among its strategic objectives.

The sector distribution of the portfolio during the strategy period is different from previous programming cycles, with the social sectors—particularly health—accounting for a higher share. Although the IDB's portfolio in Bolivia has traditionally been concentrated in infrastructure, the social sectors—particularly health—increased in importance over the 2011-2015 period, in line with the OVE recommendations in the last Country Program Evaluation (Figure I.22 and Box I.1). The legacy portfolio[20] is relatively well-aligned with the priority sectors under the country strategy (Figure 23). In addition to the priority sectors, the legacy portfolio includes projects in other sectors: agriculture, urban development, and employment. The latter two were included in the 2011-2015 country strategy as areas for dialogue.

Table 2.1: Country Strategy Sector Priorities and the IDB's Operational Program (2011-2015)

Priority Sectors	*Strategic Objectives Country Strategy 2011-2015*	*Operational Program 2011-2015 Investment Loans, Policy-Based Loans, and Private Sector*	*US$ Million*
	BOLIVIA PRODUCTIVA		
Transportation	(i) Better coverage of paved roads; (ii) Improvement of the basic road network by applying maintenance standards; (iii) Expansion of nonroad transport modalities	BO-L1075 [2012] US$122,000,000 Montero-Yapacaní Two-Lane Segment; BO-L1076 [2013] US$73,500,000 Airport Infrastructure Program. Phase I; BO-L1093 [2013] US$35,000,000 Rehabilitation of the La Paz - El Alto Highway; BO-L1089 [2014] US$106,000,000 Transportation Sector Policy Reform Program (PBL-Phase I); BO-L1095 [2014] US$185,500,000 Road Infrastructure Program to Support Development and Management of the Primary Road Network I.	522
Energy	(i) Increased extension of the national interconnected electricity grid; (ii) Increase in energy generated from renewable sources; (iii) Greater rural electricity coverage	BO-L1072 [2011] US$78,000,000 Cochabamba - La Paz Electric Power Transmission Line	78
	BOLIVIA DIGNA		
Water, Sanitation, and Solid Waste	(i) Greater coverage of basic water and sanitation (urban and rural); (ii) Greater coverage of wastewater treatment and access to proper solid waste disposal in large cities	BO-L1065 [2011] US$20,000,000 Water and Sanitation Program for Small Towns and Rural Communities in Bolivia; BO-L1073 [2012] US$20,000,000 Program for Comprehensive Solid Waste Management Implementation in Bolivia; BO-L1074 [2012] US$78,000,000 Reform Program for the Water and Sanitation and Water Resources Sectors in Bolivia (PBL-Phase I); BO-L1087 [2013] US$60,000,000 Water and Sewerage Program in Periurban Areas, Phase II	178

Priority Sectors	*Strategic Objectives Country Strategy 2011-2015*	*Operational Program 2011-2015 Investment Loans, Policy-Based Loans, and Private Sector*	*US$ Million*
Early Childhood Development (ECD)	(i) Reduction of the gaps of ECD information and service coverage	BO-L1064 [2012] US$20,000,000 "Grow Well to Live Well" Early Childhood Development Program; BO-L1070 [2011] US$5,000,000 Master Registry of Beneficiaries Program	25
Education	(i) Higher net coverage rate and net completion rate of secondary community production-oriented education; (ii) Higher ninth grade completion rate among youth aged 15 to 19	BO-L1071 [2012] US$40,000,000 Support for Productive Community Secondary Education	40
Health	(i) Expansion of coverage of healthcare services; (ii) Greater response capability of health networks; (iii) Reduction of mother-child mortality; (iv) Strengthening of sector management capacity	BO-L1067 [2011] US$35,000,000 Strengthening of Integrated Health Networks in the Department of Potosi; BO-L1078 [2012] US$35,000,000 Improved Access to Hospital Services in Bolivia; BO-L1082 [2014] US$43,000,000 Improved Access to Health Services El Alto, Bolivia	113
BOLIVIA DEMOCRATICA			
Public Governance and Fiscal Sustainability	(i) Increased training in public governance for civil servants; (ii) Preservation of macroeconomic stability and fiscal sustainability; (iii) Support for the development of SIGMA as a tool for management and administration of development projects; (iv) Strengthening of public governance by implementing the Public Expenditure and Financial Accountability (PEFA) action plan	BO-L1079 [2013] US$47,000,000 Multiphase Program for the Urban Restructuring of La Ceja (Urban Development); BO-L1063 [2011] US$52,000,000 Municipal Management Improvement Program; BO-L1062 [2011] US$62,000,000 Fiscal Policy and Decentralization Support Program (PBL - Phase II); BO-L1081 [2013] US$106,000,000 Effectiveness in Public Expenditure Support Program (PBL - Phase III)	267
CROSSCUTTING ISSUES			
Climate Change	To be determined at the project level	BO-L1084 [2013] US$57,000,000 Irrigation Program with a Watershed Approach II. Phase II	57
Indigenous Peoples			
PRIVATE SECTOR			
Opportunities for the Majority (OMJ): BO-L1066 [2011] US$2,100,000 Creating Opportunities for Small Sesame Producers in Bolivia; BO-L1069 [2011] US$5,000,000 Strengthening of Value Chains at the Base of the Pyramid Structured and Corporate Financing (SCF) BO-L1094 [2013] US$18,000,000 Banco Económico; BO-L1097 [2014] US$15,000,000 Banco Ganadero; BO-L1103 [2014] US$8,000,000 Banco de Crédito - TFFP Loan A; BO-L1105 [2014] US$3,000,000 Banco Económico – TFFP. Excludes guarantees. **MIF:** Three loans for US$7.335 million. Excludes grants.			58

Source: Own calculations based on data from the country strategy, programming documents, and OPS.

Annual Country Program Documents (CPDs) still exhibit weaknesses in terms of technical assistance programming and the reporting of results. During the country strategy period (2011-2015), the Bank completed three programming exercises (2012, 2013, and 2014) and approved 100% of the programmed funding. However, the analysis of the number of programmed loans shows that around 70% of approved loans were programmed in the CPDs for the corresponding year, while only 40% of technical cooperation operations were programmed in those CPDs. CPDs include the CS results matrix and generally report on the status of operations, but they do not report on progress made in terms of results.

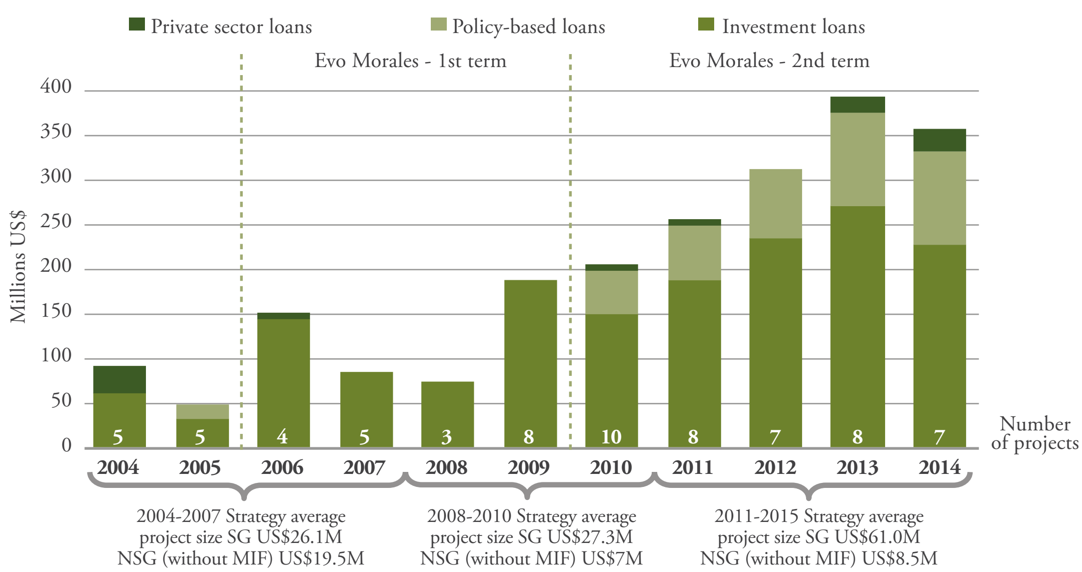
A. Financial relevance of the operational program

The value of the IDB's operational program in Bolivia tripled over the 2011-2015 period when compared with earlier programming cycles (Figure 2.1). Between 2011 (January) and 2014 (December), the Bank approved US$1.280 billion in sovereign guaranteed loans (equivalent to US$320 million per year) and US$58 million in non-sovereign guaranteed loans.[21] The CS envisioned a baseline financing scenario of US$1.260 billion in sovereign guaranteed loans over the five-year country strategy cycle, or US$252 million per year. Under an alternative scenario—based on a shift in the blend of Ordinary Capital and concessional funding (FSO) from 75%-25% to 80%-20%—financing was projected at US$1.512 billion over the period, or US$315 million annually. There was a change in the degree of concessionality available to Bolivia during 2012, with a shift to the 80%-20% scenario. This paved the way for sovereign guaranteed loan approvals of more than US$300 million. The average size of IDB operations also doubled over the most recent period. A new adjustment in the blend is planned for 2016, to 85% Ordinary Capital and 15% FSO. This would raise the limit on financing to Bolivia from US$475.1 million in 2015 to US$633.4 million in 2016. On their end, a number of agencies expect to reduce their concessional funding in Bolivia.[22]

Figure 2.1

Approved Amounts by Instrument (2004-2014)

Source: OVE calculations based on OPS data.



In terms of instruments, the IDB-financed portfolio in Bolivia consists mainly of investment loans. Of the total approved value of loans from 2011 to 2014 (US$1.338 billion including sovereign and non-sovereign guaranteed loans), 69% (US$928 million) were investment loans. These were concentrated in the infrastructure (US$594 million) and social sectors (US$178 million). Programmatic policy-based loans accounted for 26% (US$352 million), half of which were for the infrastructure sector (water and transportation) and the rest for improving public expenditure effectiveness and supporting political and fiscal decentralization. The remaining 4% (US$58 million) were private sector loans (Box 2.1).

Box 2.1: IDB support for Bolivia's private sector, 2011-2015

Although the MIF maintained an active presence in Bolivia during the period under analysis, the presence of the other private-sector windows (SCF and OMJ) was more limited. The MIF was the most active in the country, with a portfolio of 18 operations for a total of US$20.4 million—comparable to that of other countries. SCF's presence was almost exclusively through a Trade Finance Facilitation Program (TFFP), whose portfolio covers 7 banks with total approved lines of US$42 million. Compared with other C and D and Country Department Andean Group (CAN) countries, the TFFP's presence in Bolivia is below average for the region in terms of both the value of the lines and the portfolio. OMJ executed two loans supporting agroindustrial producers, for a total of US$7.1 million. Excluding credit lines and guarantees, the portfolio of approvals in Bolivia by the Bank's private sector windows totaled US$60.5 million from 2011 to 2015 of which US$58.4 million are loans.

The Inter-American Investment Corporation (IIC) portfolio was modest and concentrated. From 2011 to May 2015, the Corporation approved 14 corporate loans in Bolivia and 2 operations with financial intermediaries, for a total of US$33.9 million (11 active and 4 cancelled). The main sector is agroindustry: 76% of the portfolio supports agricultural products (four loans for US$24.5 million) and agricultural services (two loans for US$0.6 million). Support for financial services accounts for 20% of the portfolio (two operations for US$6.5 million), mostly approved in 2015.

In comparison, the presence of the World Bank's International Finance Corporation (IFC) was smaller but more diverse in terms of sectors. The active IFC portfolio approved since 2011 totals US$43.2 million. It is distributed across four operations, each of which is in a different sector: commercial banking (US$15.2 million), hotels (US$7.2 million), sugar (US$15 million), and forestry (US$6 million). The IFC's Global Trade Finance Program (GTFP), which is equivalent to the IDB's TFFP, works with the same banks as the TFFP but on a larger scale.

The IDB portfolio in Bolivia is geographically concentrated, with substantial participation by subnational governments. Analysis of a sample of IDB financed public investment projects (active as of 30 June 2014) shows that 20% of the total value consists of projects that are national in scope, while 60% is concentrated in the departments/municipalities of Cochabamba, La Paz, and Santa Cruz (Figure 2.2). The transportation and energy sectors account for two thirds of the active investment portfolio executed, mainly in Cochabamba, Beni, and Santa Cruz, albeit with impacts on a national scale. The social sectors—mainly health and education—are geographically concentrated in Chuquisaca, La Paz, Oruro, and Potosí.

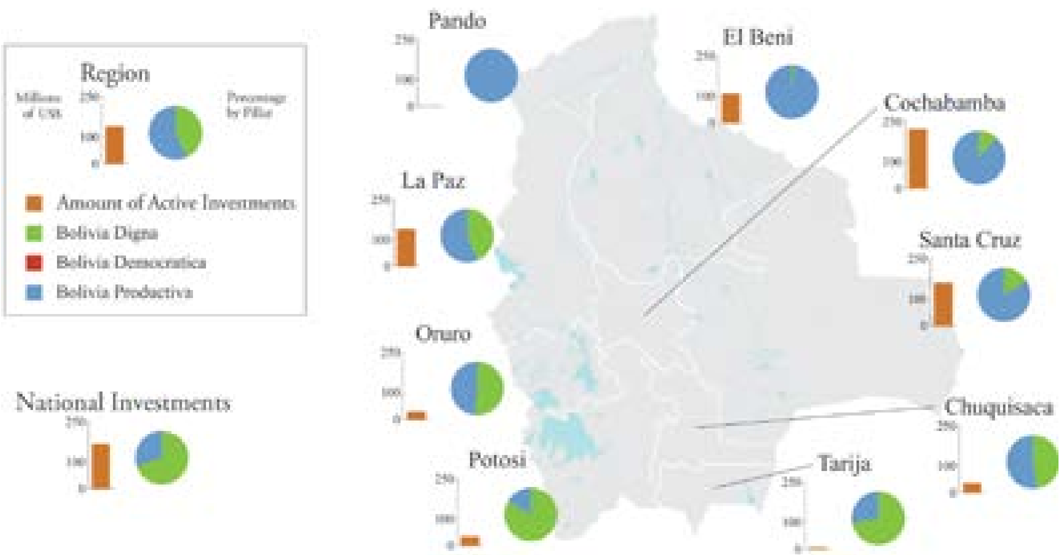


Figure 2.2

IDB-Financed Public Investment Projects (active as of June 2014)

Source: OVE, based on data from the Office of the Deputy Minister of Public Investment and External Financing.

The majority of technical cooperation resources were used to support design and implementation of the loan portfolio, and focused on the same sectors as the investment portfolio. Sixty-seven technical cooperation operations were approved in the 2011-2014 period (US$29.5 million), of which 51.3% (US$15.1 million) were directly executed by the IDB. More than half of these resources, and more than 70% of operations, were used to provide direct support for investment loans and policy-based loans (PBLs), including preparation, execution, institutional strengthening, and knowledge activities directly linked to the loans. A further US$25.4 million in investment grants (two operations) were approved to supplement loans in water and electricity for rural areas.[23] The MIF approved 18 operations (US$20.4 million). The technical cooperation operations supporting projects were concentrated in sectors in which the Bank has a substantial investment portfolio (health, water, transportation). The technical cooperation operations that did not directly support loans were concentrated in the same sectors, with a few exceptions in areas such as security, employment, and gender.[24] The health sector made strategic use of technical cooperation funding, generating knowledge to deepen analysis of relevant themes for the sector (Box I.2).

CAF was Bolivia's main financial partner during the evaluation period, with a portfolio concentrated in infrastructure (particularly transportation). CAF approved loans for a total of US$1.882 billion over the period (compared with US$1.280 billion from the IDB and US$547 million from the World Bank). Although the total value of loans approved by the IDB, CAF, and World Bank in Bolivia was relatively similar in 2011

(US$252 million, US$337 million, and US$275 million respectively), IDB approvals remained relatively stable (with a slight increase), and World Bank approvals fell. At the same time, CAF's presence underwent marked expansion, with loan approvals totaling US$516.7 million in 2014 (Figure 24). In terms of sector distribution, CAF focused on infrastructure, especially transportation, which accounted for 66% of total loan approvals from 2011 to 2014. This was followed by water (15%), energy (8%), and agriculture (4%).

Nonetheless, the IDB remains one of the main financial partners for development in Bolivia. IDB disbursements remained at around 40% of total external credit disbursements throughout the entire period, though as a percentage of public investment they dropped by almost half (falling from 10.4% in 2010 to 6.8% in 2014), due primarily to the sharp increase in the total volume of public investment over that period. As of March 2015, the country's debt with the IDB accounted for 34% of the National Treasury's stock of debt with multilateral institutions (VIFPE, 2015).

B. Efficiency of the operational program

The IDB reactivated disbursements over the evaluation period and reduced the age of the portfolio. Disbursements fell by US$100 million in 2005, and were below US$50 million in 2008, leading to a substantial accumulation of undisbursed resources at the beginning of the 2011-2015 period. There was rapid growth in annual disbursements during the CS period. Nonetheless, the ratio of disbursements to the undisbursed balance in 2014 was the same as in 2005 (Figure 2.3). FSO debt forgiveness in 2007,[25] portfolio restructuring,[26] and high levels of disbursements helped reduce the age of the portfolio.

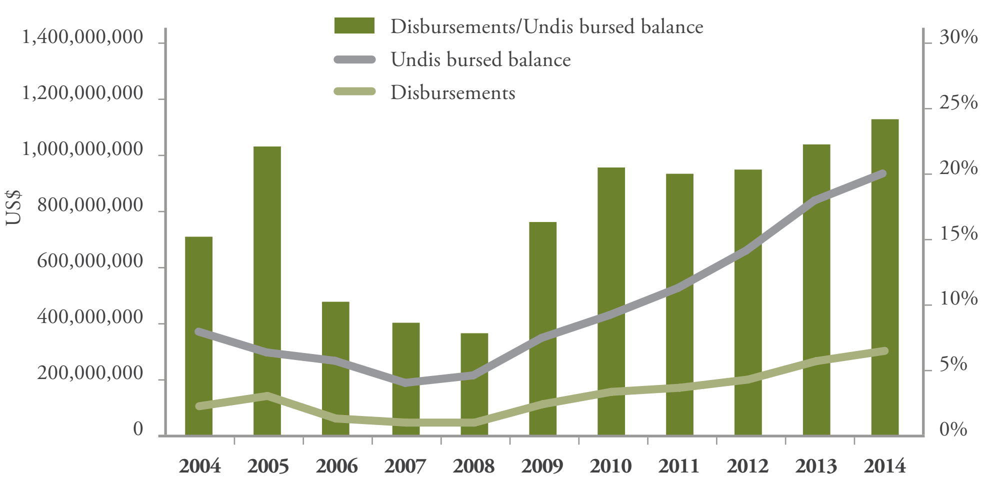


Figure 2.3

Financial Flows

Source: OVE, based on the IDB's Trends and Statistics system.

The marked increase in disbursements is also partly explained by improvements in IDB management, particularly at the level of the Country Office. Beginning in 2008, the Bolivia Country Office launched a major process of improvement in its results-based management. Table 2.2 shows progress in client satisfaction (the Bolivian government) and organizational climate. In addition, with the objective of having technical staff in the field to support portfolio growth and improve the Bank's dialogue with the country, the number of professional staff (specialists and analysts) doubled between 2008 and 2013, thereby doubling staffing costs in the Country Office.

Table 2.2: Management indicators

Indicators	*Source*	*2008/09*	*2013/14*
Satisfaction Survey, Central Government (/10)	BSC	6.88	8.8
Organizational Climate Score (/10)	BSC	3.8	8.5
Disbursement times (days after request)	BSC	7.7	2.05
Correspondence answered (days)	BSC	20.28	5.8
Country Office staffing levels (specialists, analysts)	BSC	7; 0	15 ; 6
Total costs allocated to the Country Office (US$)	T&L	2,571,417	5,198,551
Level of ex post procurement review	BSC	28%	56%
Age of the active portfolio (sovereign-guaranteed; years)	PISTA	4.38	2.73
Original disbursement projection met*	T&S	83.0%	102.6%

Source: OVE, based on CAN Balanced Score Card Data (2008-2014).
Note: * As of 31 December of each year.

Project preparation and execution costs improved during the country strategy period, albeit with variations across sectors and executing agencies. Total preparation costs rose by 61% between 2004-2007 and 2011 2015, but the approved amount almost tripled and the preparation efficiency ratio (preparation cost/approved amount) improved from US$0.007 to US$0.004. Execution costs[27] doubled from 2004-2007 to 2011-2015, but disbursements rose by a factor of 15. Accordingly, the execution efficiency ratio (execution costs/disbursements) also improved, from US$0.330 to US$0.049. For projects approved between 2011 and 2015, preparation and execution costs are highest for the early childhood development and education portfolio, followed by health, and are relatively low in the cases of energy, governance, and transportation. The ratio of preparation costs to approvals is lower in the executing units—Administradora Boliviana de Carreteras [Bolivian Highways Administration] (ABC), Fondo Nacional de Inversión Productiva y Social [National Social and Productive Investment Fund] (FPS), and Empresa Nacional de Electricidad [National Electricity Company] (ENDE)—than in the ministries or the central government (US$0.002 versus US$0.006).[28]

Preparation times remained constant over the CS period. However, the efficiency of Bolivia's investment portfolio in execution is below the combined average for FSO countries and countries belonging to the Country Department Andean Group (CAN).

Using simple averages, the preparation time of projects approved between 2011 and 2015 was 12 months, below the average preparation time seen in 2004-2007 (17.7 months).[29] The average number of days elapsed between approval-effective date, effective date-eligibility, and eligibility-first disbursement for 2011-2015 was 168 days, 187 days, and 66 days, respectively (compared to 230 days, 213 days, and 20 days for 2004-2007).[30] In terms of execution, OVE compared Bolivia's executed investment loan portfolio during the evaluation period with 1,000 comparable synthetic portfolios built from projects in countries belonging to the Andean Region (CAN) and the rest of the FSO countries (See Methodological Note, Annex I). The analysis compares disbursement levels over time in the period following eligibility[31] and shows that mean disbursement percentages for projects in Bolivia are lower at any point in time than mean disbursements for a comparable portfolio of projects from CAN and FSO countries combined. As can be seen in Figure 2.4, the performance of the Bolivian projects in the seventy-fifth performance percentile is similar to that of the portfolio of comparable projects.

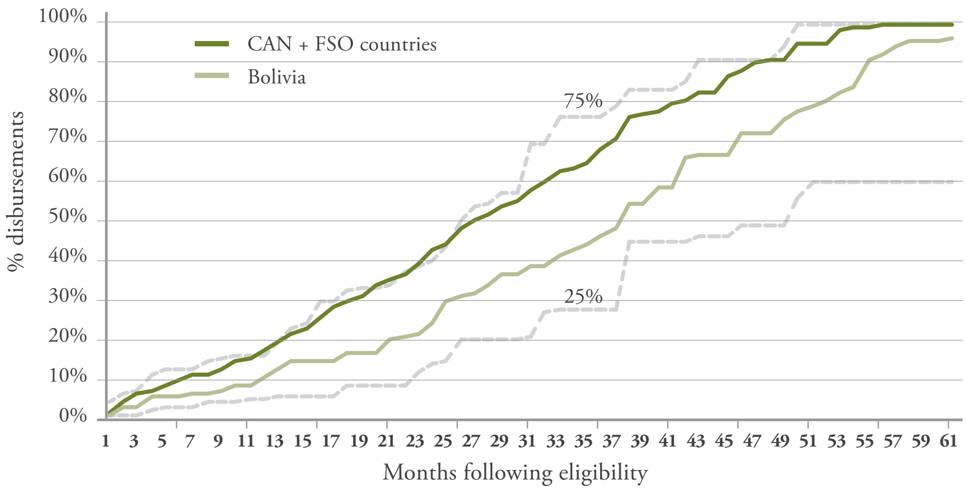


Figure 2.4

Synthetic portafolios: Investment loans

Source: OVE (see Methodological Note in Statistical Annex).

The limited portfolio efficiency is associated with a series of implementation problems[32] often exogenous in nature, associated with the following:

a. The quality of project preinvestment. The weak quality of designs and the time lag between preinvestment studies and the launch of works affects implementation in most projects with infrastructure components. In a number of cases, these problems led to a reduction in the scope of works (and in the beneficiary population). In the social portfolio, preinvestment activities for infrastructure and medical equipment were affected by a lack of consolidation in the classification rules for establishments.

b. The limitations of a narrow market for goods and services procurement. This limitation has been aggravated by rapid growth in construction in the country, in the face of a limited supply of domestic firms. In the case

The active incorporation of Autonomous Municipal Governments (GAMs) and Autonomous Departmental Governments entails complex processes of interagency negotiation and appropriation that hinder and delay project execution.
© OVE, 2015

of infrastructure, some bidding processes were initially declared void owing to a lack of bidders and had to be reopened, leading to delays in the works timeline (see Annex III).

c. The incorporation of subnational governments into the financing and management of operations, and the institutional agreements that this necessitates. The active incorporation of Autonomous Municipal Governments (GAMs) and Autonomous Departmental Governments entails complex processes of interagency negotiation and appropriation that hinder and delay project execution. A number of projects experienced considerable delays between approval and eligibility, related to the signing of subsidiary agreements.[33] Once eligibility had been attained, a number of projects were further delayed by the processes necessary to execute the resources, stemming from the new methods for registering local funding. Municipal councils' administrative processes were also problematic.

d. Excessive workload in executing agencies. The main executing agencies for development projects are operating at the limit of their capacities. The IDB had to provide technical assistance and funding for staff to reinforce capacities at the FPS and the ABC.

e. Delays in implementing community development components meant that community support activities did not keep pace with works construction. Execution of Desarrollo Comunitario [Community Development] (DESCOM) and its inclusion in the project cycle have been insufficient to achieve the targeted cultural and institutional changes. This limitation has been most acute in the case of projects in the rural area.

f. The complexity of managing environmental and social issues (particularly in the case of transportation projects). Mitigation and compensation efforts for the socio-environmental impacts of road projects have led to substantial delays in both the design and execution of the works. The situation has even created conflicts that have been brought before the Independent Consultation and Investigation Mechanism (ICIM), leading to the withdrawal of works.[34] Against this backdrop, project preparation efforts of several road segments have ended up being used by other financing agencies, and Bank actions, in practice, are focusing on operations of lower socioenvironmental complexity.

Despite the IDB's efforts to move forward with the use of country systems, limited use of these systems was made during the CS period. Although Country Program Documents promoted the use of country systems, with a target of up to 100%, this target has not yet been met. The use of country systems has been focused more on budget execution systems than on financial management, audit, and procurement.[35] Despite limited progress, the use of country systems has been mentioned by the Bolivian government as one of the most significant comparative advantages of other institutions.

3

The IDB's portfolio in the health and education sectors rose from 3% of the total in the 2004-2007 period to 8% in 2008-2010 and 14% during the CS period.
© OVE, 2015

3 Results of the IDB Program in Bolivia

This section analyzes the IDB's positioning, and the effectiveness of its interventions in each of the priority sectors. The country strategy results matrix suffers from limitations in terms of the quality of indicators, while the time lag between the operational program and the targets to be met do not allow IDB program outcomes to be evaluated (See sector annexes). As a result, this section analyzes effectiveness at the level of individual projects belonging to each one of the pillars and priority sectors, as well as their contribution to meeting country strategy objectives.

A. Bolivia productiva

- **The main focus under the country strategy has been on productive infrastructure, with a particular bias toward transportation. The Bank remained an effective partner for development of the roads sector, supporting the strategic objectives of expanding and rehabilitating the primary road network. Through a PBL, the IDB also began to support the institutional framework required for management of the transport sector.**

The Bank's portfolio in the transportation sector was relevant for Bolivia in its alignment with national priorities and the type of support provided under each of the strategic lines as well as the volume of financing. One of the government's priorities was to improve the supply and management of transportation infrastructure. The IDB's country strategy and operational program focused on three intervention strategies: (i) improving coverage of paved roads within the primary road network (RVF) (BO0200, BO L1011, BO-L1075, BO-L1093, BO-L1095), (ii) improving RVF maintenance practices (BO-L1015, BO-L1031), and (iii) undertaking preinvestment for projects in road and other modes of transportation (BO-L1056, BO-L1076). These lines of intervention respond to national priorities and to the main development challenges in the sector (Annex III). The PBL (BO-L1089) sought to update the normative framework of the General Transportation

Law, identified as one of the most important institutional challenges. In relation to financing volumes, external financing for the RVF expansion program accounted for 60% of executed investment during the country strategy period. CAF was the main source of financing, disbursing on average US$287 million per year (45.8% of the ABC's investment budget), while the IDB disbursed US$55 million on average (9% of the budget).[36]

In terms of results, the Bank intervened in 18.8% of the paved RVF (1,126 km) during the period under evaluation, with the construction, rehabilitation and periodic and routine maintenance work.[37] With the loans that have been completed, the Bank has financed the construction or rehabilitation of 118 km, periodic maintenance of 506 km, and the routine maintenance of approximately 513 km (BO0200, BO-L1011, BO-L1015, and BO-L1031). Projects under execution are aimed at expanding or improving 102.4 km, rehabilitating 11.2 km, and carrying out periodic maintenance of 278 km (BO-L1075, BO-L1093, and BO-L1095). Targets were achieved in most cases (Annex III). As a complement to the investment program, the IDB supported creation of a databank of projects that are ready to be financed, as well as funding for the release of rights-of-way and socio-environmental compensation for road projects. The Bank supported institutional strengthening of the ABC as part of each project's implementation. In its most recent operation, the IDB prepared a comprehensive diagnostic assessment of institutional needs and capacity-building for the ABC headquarters, and is financing activities and resources needed to strengthen it.[38]

IDB support for sector institutional reforms has been timely but remains insufficient to provide the sector with the instruments needed to effectively drive its transformation. Alongside approval of the Transportation Sector Policy Reform Program, the Bank provided technical assistance funding for development of the regulations needed to implement the new General Transportation Law. Although the policy conditions included in the first PBL are of insufficient structural depth, the *indicative measures* in the second and third loans show greater regulatory impact, including the preparation and implementation of tools for highway planning, prioritization, and maintenance. Nonetheless, the success of the programmatic series will depend on effectively transforming these indicative measures into conditionalities under the subsequent loans of the series. Having updated transportation master plans and establishing departmental transportation plans to facilitate effective management of sector public investments was excluded from the scope of this operation.

The Bank supported innovative road conservation strategies for RVF maintenance, albeit with mixed results in terms of viability. The IDB initially promoted the adoption of performance-based "CREMA" maintenance models (BO0200). However, this model proved unworkable owing to a lack of bidders able to comply with the technical and economic conditions. Thereafter, a pilot project was used to promote a standards-based approach (BO-L1015). Although the program fulfilled its objective of demonstrating that high service levels can be achieved while strengthening the capacities of microenterprises, this modality was very costly, making a rollout to the entire RVF impracticable.[39] More recent projects reverted to the modality of maintenance based on unit prices per km

(BO-L1031) and toll charges (BO-L1075, BO-L1093, and BO-L1095). For its part, the Bolivian government is financing a maintenance plan with contributions from the National Highway Account.

Bank support for other modes of transportation remains incipient and faces institutional challenges and financial viability issues (see Annex III).

Economic growth in Bolivia is explained largely by the contributions of manufacturing production and the energy sector.
©OVE

- The CS and its strategic lines of intervention in the electricity sector responded in part to the government's strategic objectives and the process of institutional transformation in the sector. The IDB made progress towards its objective of expanding power generated from renewable sources through the projects associated with the Misicuni hydroelectric power plant. The IDB also supported the expansion of the transmission and distribution network to deliver electricity to rural communities. Nonetheless, these projects face sustainability risks and problems of interagency coordination.

The IDB's contribution to the electricity sector and the relevance of its actions were limited by a portfolio that was focused on individual interventions. The challenge of sector institutional restructuring was left out of the areas for action selected in the CS. Bolivia's electricity industry has been subject to major operational, institutional, and economic changes aimed at adapting its institutional framework to constitutional principles. The government has implemented a sector policy aimed at deepening the role of the State by promoting the nationalization of firms operating in the sector, a shift in the structure of rates and subsidies, a deepening of the process of universal service delivery, and the inclusion of renewable sources. The portfolio in the electricity sector is a young one, in a sector in which Bank involvement has been marginal. The Bank's loan portfolio during the CS period included only one project to support the expansion of transmission networks (BO-L1072). This loan is progressing in a satisfactory manner, anchored in ENDE's executing capacity and experience. The legacy portfolio includes an investment loan for the Rural Electrification Program (BO-L1050) and another for the Misicuni Renewable Energy Hydroelectric Project (BO-L043). The Misicuni Watershed Environmental Management Project (BO-L1053), prepared by the IDB's Environment, Rural Development, and Disaster Risk Management Division, is also included, given its relevance (Annex IV).

In terms of results, only the Misicuni Watershed Environmental Management Project (BO-L1053), a legacy operation for US$5 million, was completed during the CS period,[40] and its outcomes were satisfactory. However, there are sustainability risks associated with the delays in the construction of the dam. The objective of the operation was to complete and strengthen measures to mitigate the environmental and social impacts of the dam's construction. The project was completed in 2014. The intervention fulfilled its objectives, watershed conservation and protection measures were completed, together with pilot projects benefiting residents affected by the dam (Annex IV). However, the socio-environmental protection actions are subject to sustainability risks associated with delays in dam construction, which could lead to new demands by residents in the area.

The Misicuni hydroelectric project (BO-L1043) is under execution but faces interagency coordination problems. The project, approved in 2010, finances the construction of hydroelectric works (US$101 million). As of March 2015, the works had a 50% physical implementation rate. Despite the technical complexity associated with penstock construction, the plant is expected to begin operating in July 2016. However, the fragility of coordination processes among multiple stakeholders involved in the overall project, as well as the lack of a higher-level authority responsible for effective coordination of the works, increases the risks associated with system operation.[41] This risk could entail significant economic costs for the company and possible reputational risks for ENDE and the Bank itself.

The Rural Electrification Program (BO-L1050) supports the extension of electricity distribution networks in rural areas, and despite delays, has made significant progress. This program was approved in 2010 but faced delays in the startup of execution including the signing of interagency agreements with participating local governments, delays in the formation of the execution unit, and a limited market of contractors. Despite this, at year-end 2014, 1,513 km of distribution lines and 39 km of transmission lines had been installed and the program is moving toward fulfillment of its planned objectives.

B. Bolivia digna

- **CS objectives for the social sector were ambitious in terms of expanded service coverage. The IDB's portfolio in the health and education sectors rose from 3% of the total in the 2004-2007 period to 8% in 2008-2010 and 14% during the CS period. While the IDB's positioning in the health sector was relevant for reducing existing deficiencies, it failed to achieve relevance in the case of education. Program outcomes were affected by execution delays.**

In health, the CS positioned the IDB fundamentally in the area of primary health care (BO-L1012 and BO-L1032 from the legacy portfolio) and hospital infrastructure expansion (BO-L1067, BO-L1078, and BO-L1082); this supported the government's agenda, which includes service expansion. A fundamental characteristic of the IDB's intervention was its regional focus. In the cases of both sectors -health and early childhood development, the relevance of IDB investments was enhanced by their focus on areas with greatest service access needs (Padilla, Azurduy, and Camargo in Chuquisaca; Uyuni, Uncía, Tupiza, and Ocurí in Potosí; and the departmental capitals of Sucre and Potosí) (Figure 3.1). This geographic focus also allowed the IDB to address issues of institutional fragmentation and to support resolution capacity of the health network (Figure 18). In the case of education, however, the IDB's contribution and relevance was limited by its decision—in the face of the enormous challenges associated with operationalizing the new 2010 "Avelino Siñani Pérez" Education Law (Annex V)— to design an operation to create the national Technical, Technological, and Productive Education System (BO-L1071), despite the absence of defined national regulations. Although expansion of secondary education coverage is an important challenge for the country, the IDB's operation falls far short of the improvements in coverage and completion rates that were proposed in the country strategy. The IDB sought to maintain its technical relevance in the social sector through project BO-L1070 (2011) to support the consolidation of the Master Registry of Beneficiaries (RUB) for social programs.[42]

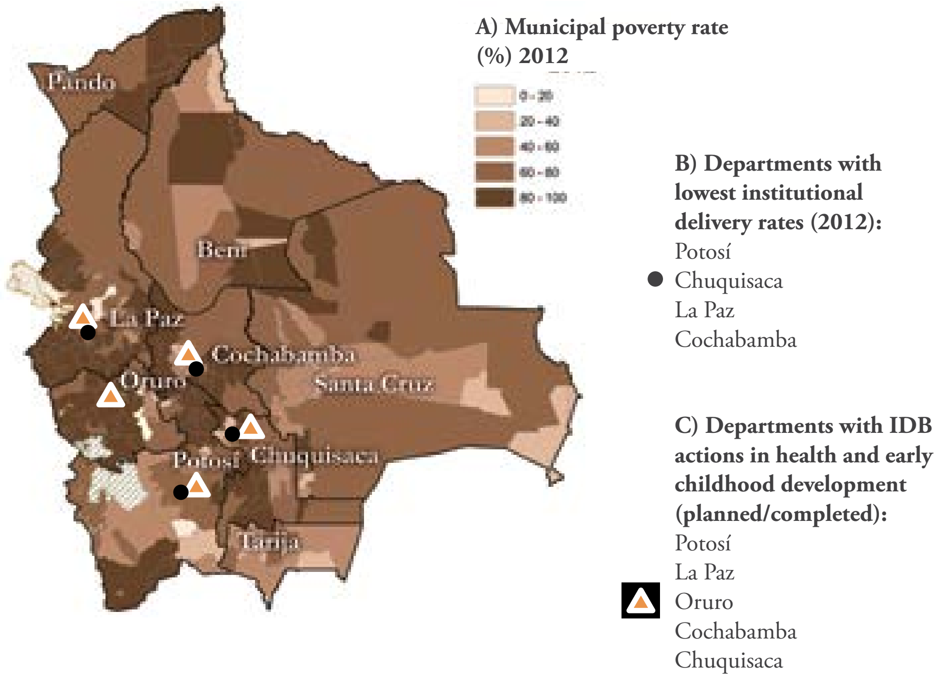


Figure 3.1

Poverty and IDB support for health and early childhood development

Source: A) Poverty: "Decentralization and Poverty Reduction in Bolivia," Andersen and Jemio (2015), Annex XI. B) Institutional deliveries: UDAPE with data from the Ministry of Health and Sport. C) Operations BO L1032, BO-L1012, BO L1064, BO-L1067, BO-L1078, and BO-L1082.

In terms of outputs, the health programs were effective in providing hospital infrastructure, equipment, and training. Legacy portfolio operation BO-L1032 (2009), which has been completed, fulfilled its target of issuing identity cards and cash transfers to beneficiaries of the Bono Juana Azurduy in 74 priority municipalities in Cochabamba, Potosí, and Oruro (the original target was 36 municipalities), and providing institutional support for the participatory drafting of municipal health strategies in Oruro, Potosí, and Chuquisaca. It also met the objective of improving the supply of comprehensive health services, supporting the expansion and outfitting of health facilities and temporary accommodation for pre-partum mothers in the Potosí and Oruro networks. Operation BO-L1012 (2007), also from the legacy portfolio was completed as well; meeting the objective of financing both primary-level infrastructure in Chuquisaca (19 facilities) and preinvestment for new primary-level facilities. The other operations have low disbursement levels.[43]

However, in the long term, health sector investments face challenges in the areas of management, operation, and sustainability. Financing and execution capacity in the social sector is limited at both the national and subnational levels.[44] Sustainability challenges are varied, but foremost is the lack of specialized medical staff.[45] Salaries in the health sector are low, meaning that many doctors lack incentives to provide care for patients in public hospitals. The same is the case in primary-level health care centers in rural and remote areas. The second challenge involves maintenance costs for hospital investments. Although Bank operations included a maintenance package for up to three years following the launch of operations, departmental governments will need to assume maintenance costs upon project completion, and no budget adjustments have been made. A third risk is the lack of hospital management and administration systems, which may become a serious problem for service administration. Lastly, the responsibilities of national, departmental, and municipal governments for financing the health system are not clearly defined, and this may present a problem for future functioning of IDB-financed infrastructure.

Educational outcomes are more elusive, given that the project has been subject to major delays. After 30 months of execution, project BO-L1071—which supports the Humanistic Technical Bachelor—has only disbursed 7% of funds and was classified as an alert status project in the last Project Monitoring Report (December 2014).[46]

- In drinking water and basic sanitation, IDB programs complemented government programs to expand coverage, supporting comprehensive solutions in disadvantaged areas. These had satisfactory results in terms of infrastructure, but limited results in terms of institutional and community development.

The country strategy was relevant in the area of drinking water and basic sanitation in that it focused projects on the neediest areas and incorporated the new institutional structure into project design. The interventions responded to the high priority placed upon the sector by the government,[47] and also addressed sector challenges associated with institutional weaknesses, high levels of regional exclusion, limited technical capacities at the subnational level, and service sustainability challenges (Annex VI). The priorities set out in the CS targeted actions to rural areas, small communities (BO-L1013, BO-L1065, and BO-G1002), and periurban areas (BO-L1034 and BO-L1087). The relevance of the programs was enhanced by their support for comprehensive solutions[48] and their focus on cities with high levels of service exclusion (Table 3.1).

Table 3.1: Number of residents without drinking water and basic sanitation services, by department

	Drinking Water		Basic Sanitation	
	Urban	**Rural**	**Urban**	**Rural**
Chuquisaca	10.815	130.145	46.602	220.686
La Paz	110.119	394.937	509.413	601.865
Cochabamba	328.209	254.799	487.690	337.390
Oruro	16.155	93.272	114.919	155.690
Potosí	12.649	182.020	86.021	404.408
Tarija	10.127	35.542	68.123	67.772
Santa Cruz	46.669	129.118	1.217,702	168.197
Beni	125.544	73.203	234.357	36.058
Pando	13.635	44.582	40.632	14.502
Total	**673.922**	**1.337,619**	**2.805,459**	**2.006,568**

Source: Own estimates, based on the 2012 Population and Housing Census.

Conditionalities under the sector reform program (BO-L1074)—associated with regulatory development and institutional strengthening—were significant but of limited depth. As frequently occurs with this type of operation, the first loan in a programmatic policy-based series lays the foundations for future structural changes. An assessment of the structural depth of policy changes under the first loan shows that only one condition had a high impact in terms of generating sustained policy changes in the sector (providing the Servicios Departamentales de Riego [Departmental Irrigation Services] (SEDERIs), with an operational budget). In the second loan (under preparation), 12 of the 29 *indicative measures* could lead to structural changes in the sector (Annex VI). To support preparation and approval of the second programmatic PBL, the Bank approved a set of technical cooperation operations. Planned institutional changes will only be effective if the instruments, plans, and programs are effectively incorporated into sector management by the relevant authorities.

The Small Community Water Program (BO-L1013) was successful in meeting coverage targets, but community and institutional development objectives were more elusive. The conclusion that the project fulfilled coverage targets, despite execution difficulties, is supported by the Project Completion Report, the report prepared by the FPS, and evaluation meetings held by OVE. The number of inhabitants supplied totaled 126,000—63% of the original target (owing to differences in population distribution). Expanded access to improved water and sewage treatment was higher than the original target, while that of basic sanitation was lower (Table 3.2). The population's propensity to install individual sanitation solutions connected to the network was limited, due to weak sanitary education among the population served and the high connection costs. A reduction in the funds allocated to community development (DESCOM) affected the depth of activities and hindered the attainment of better results in the areas of community development and institutional strengthening.[49] Lastly, the contribution of the program to strengthening sector management capacities among the GAMs was limited and institutional strengthening programs were not implemented.

Table 3.2: Targets and Outcomes of Loan BO-L1013

Indicator	Achieved	Planned	% Achieved
Households with water supply (improved and new)	17,086	9,989	171%
Households with sewer connections (improved and new)	10,278	11,807	87%
Households with domestic wastewater treatment	9,900	7,179	137%

Source: Fondo Nacional de Inversión Productiva y Social [National Productive and Social Investment Fund] (FPS).

Similarly, the results obtained to date under the Water and Sewerage Program in Periurban Areas - Phase I (BO-L1034) have been better in terms of system construction than in community development and institutional strengthening. Although the projects have not yet been completed, it is possible that the targets for improved water and sewer services for 500,000 residents will be met. Nonetheless, progress on the community development component has been slower, and this component is only executed in 5 of the 18 projects. Similarly, the component to provide technical assistance to the EPSAs and institutional strengthening for the new central agencies has been subject to significant delays. Progress in relation to operators' operating efficiency and effective implementation of the strengthening strategies could not be verified.

The sustainability of water and sanitation programs is subject to significant risks associated with the low operational and technical capacities of operators. The entities responsible for services operation and management have low levels of operational and technical capacity, with inefficient operation and maintenance practices. Compounding this are low rates and insufficient collection levels. Rates introduced by the operators are determined more by consensus-building with the population than by economic calculations of financial adequacy for sustaining interventions. In fact, average rates are insufficient to cover operating, maintenance, expansion, and equipment replacement costs. At the same time, staff turnover in the EPSAs and GAMs means that the capacities acquired and operational practices developed are lost.

The solid waste project is in the startup stage, and there are therefore no results to report in relation to the country strategy objective (Annex X).

C. Bolivia democrática

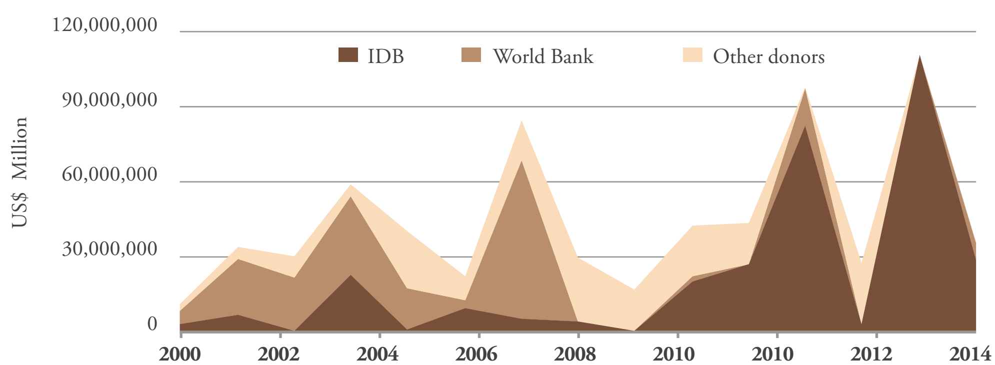
- **The IDB continued to support far-reaching reforms in the area of public management and decentralization. The programs achieved improvements in public financial management and in the consolidation of financial management systems at the national and subnational levels.**

The Bank's portfolio in the sector grew markedly, giving the IDB greater leadership in the sector dialogue in relation to fiscal policy, decentralization, and financial management issues. Support in the area of civil service strengthening was more limited.[50] The size of the new loans was substantial, doubling the volume of approvals compared with the previous period and enhancing the Bank's financial relevance compared with other financing institutions in the sector (Figure 3.2). This gave the IDB greater leadership in the policy dialogue, supporting the country in relevant areas of fiscal sustainability, financial management, and public expenditure. The IDB's positioning in the sector allowed it to resume implementation of programmatic series begun in previous periods, completing them successfully.[51]

Figure 3.2

Support for Governance and Public Management

Source: OECD (2015); IDB Datawarehouse (2015); World Bank (2015).
Note: only measures flows



Following approval of the Autonomies and Decentralization Framework Law (LMAD) (2010), the Bank supported policy reforms that were relevant to moving the process of decentralization forward in the country (BO-L1061, BO-L1062). In terms of results, however, the exclusive emphasis on legal changes, with limited structural depth, limited effectiveness. The policy measures included in the first programmatic loan (LMAD and the Action Plan for Improving Public Financial Management) had transformative potential at the regulatory level, and had been fulfilled before the operation was approved, thus facilitating rapid disbursement.[52] Given the independence of the legislative branch and despite the risk identified in the loan document that treasury, public borrowing, and tax classification laws could be undermined if the Plurinational Legislative Assembly amended or failed to pass them, in the case of the second operation, the Bank decided to formulate all of the conditions as "presentation of the draft law to the Assembly." In practice, the Income Classification Law was approved, including the policy actions contained in the loan, but the legal modifications in the treasury and public credit area did not materialize. In this context, the programmatic loan had a moderate impact in terms of fiscal policy reform.

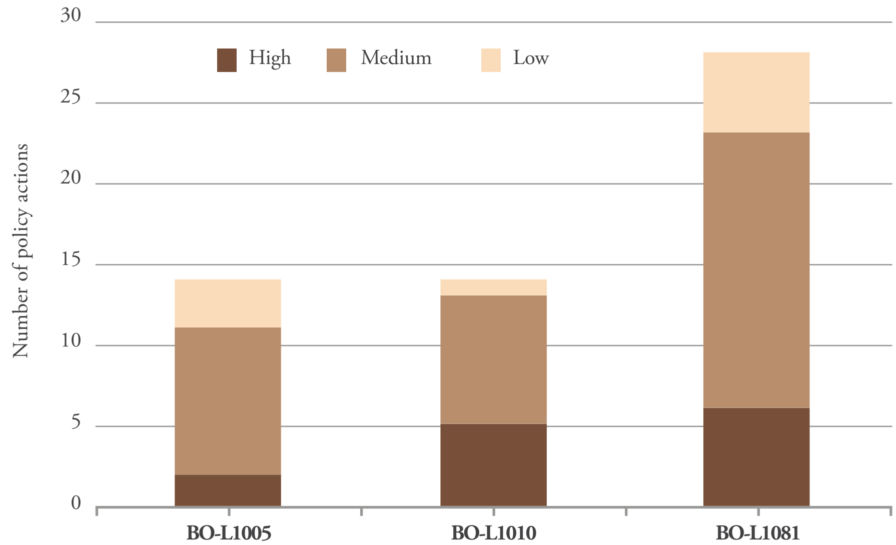
As a medium-term effort, the Bank approved the Effectiveness in Public Expenditure Support Program (BO L1005, BO L1010, BO L1081), a programmatic series which supported important reforms of medium depth and with partial results. The Bank proposed far-reaching packages of reforms that ranged from 14 actions under the first loan to 28 in the last one (Figure 3.3). With the exception of the proposed changes to budget legislation, the depth of proposed reforms generally increased over time,[53] and in each thematic area there was a sequencing of proposed actions. Various measures of medium and high structural depth were proposed in terms of outcomes. Given the number of agencies involved, the authorities appreciated the Bank's coordination and supervision efforts. In terms of results, the approved reforms consolidated a number of advances in the area of budget management and improved the multilevel integration of fiscal management systems, as well as introducing accountability mechanisms for performance (internally and with respect to society) and strengthening the transparency framework.[54] Among the objectives that were not achieved was the failure to approve the Framework Budget Law or the Access to Information Law, as well as the partial attainment of a number of measures related to public expenditure control or the integration of budget and investment systems.[55] In light of the difficulties experienced with this reform, the Bank's last operation opted for partial reforms to the budget process, such as the introduction of a multiyear perspective into the budget. The absence of such a perspective was affecting the planning and efficient execution of public investment, which is of a multiyear nature.

With a view to strengthening fiscal management at the municipal level, the Municipal Management Improvement Program (BO-L1063, 2011) supports the development of a new SIGEP. The program also supports the expansion of the tax base in the country's 10 largest cities through the development of its urban property registry systems. While SIGEP development is moving ahead, improvements to the registry face significant challenges due to the need for coordination. After two years of execution, only 20% of loan resources have been disbursed (2015).

FIGURE 3.3

Structural Depth of the Programmatic Series on Effectiveness in Public Expenditure

Source: OVE, based on the Policy Matrix.



D. OTHER SECTORS

- **Although the country strategy did not include the agricultural sector among its priority sectors, the projects in this sector belonging to the IDB's legacy portfolio were important. They adapted to changes in context and have been effective, despite facing sustainability challenges.**

One of the pillars of the 2008-2010 strategy was fostering productivity and competitiveness in the agricultural sector. During the CS period, the operations in this sector finished disbursing, and were aligned with the priority areas defined by the GofB's program (Annex VII).[56] The Bank's legacy portfolio includes (i) irrigation programs, which supported the sector's institutional framework and targeted depressed areas (BO-L1084, BO L1021); (ii) a program to support agricultural producers, with beneficiary eligibility criteria that functioned as an ad hoc mechanism for targeting small-scale producers (BO-L1040);[57] (iii) a land title regularization project, which was designed to support regularization of rural landowners in Santa Cruz and Pando, but which ended up supporting implementation of the with the new agrarian reform law (BO-L1040); and (iv) the agricultural health program (BO-L1037), which although relevant for the export sector does not appear completely aligned with the government's focus on food security in the domestic market.

In terms of results, the irrigation programs (PRONAREC) have fulfilled their objectives of increasing producer incomes and crop yields. As of December (2014), 48 irrigation projects had been completed and 8 were in execution, representing 100% of the established target. The PRONAREC I impact evaluation found that agricultural producer incomes rose on average by US$1,341.30 per hectare (90% of the established target), based on data from 13 completed irrigation systems following two or three agricultural production cycles. Similarly, an average increase of 49% was seen in yields of the main crops targeted under the program. All of the projects included comprehensive technical assistance services supervised by the SEDERIs, which assisted irrigators in registering water usage.

The land titling and regularization programs have been extended and reformulated to adapt to changes in context, and they have achieved established targets with a medium level of effectiveness. As of project completion (after a four-year extension in 2009), a total of 59.2 million hectares had been regularized (55.7% of the targeted area), with a further 14.4 million hectares under way. Despite the fact that around 30% of the territory remains untitled, one of the main outcomes of the project was consolidation of the agricultural sector's institutional framework for land regularization, with the strengthening of departmental branches of the Instituto Nacional de Reforma Agraria (INRA).

While short and medium-term results were achieved in terms of supporting agricultural producers under the Direct Support Program for the Creation of Rural Agrifood Initiatives (CRIAR), the long term benefits do not appear to be significant. As of October 2014, a total of 19,678 families in 39 municipalities had benefited under the program, mainly through the provision of sowing and post-harvest equipment, as well as technical assistance. Fifty productive entrepreneurship plans were also financed, corresponding to 63% of the established targets. The program impact evaluation reported a positive impact on short- and medium-term indicators, such as spending on agricultural inputs and the proportion of production sold; however, no significant long-term results—such as productivity growth—were found.

- **The results of the private sector portfolio were limited.**

SCF was present almost exclusively through a Trade Finance Facilitation Program (TFFP) whose portfolio covered seven banks as of 2015, with approved and renewed lines totaling US$42 million. The presence of the TFFP in Bolivia is slightly lower than regional averages in terms of the size of credit lines and the total size of the portfolio approved since 2006, even when calculated as a proportion of the trade balance. In the current economic context, the evaluation found no evidence that the lines had either behaved in a countercyclical manner (supporting the export sector when the trade balance declined) or expanded downwards in the market (working initially with large commercial banks as a proof of concept, thereafter expanding downwards to include small banks) (Annex IX). At the same time, the use of lines for transactions has been greater in Bolivia than the regional average, with transactions worth 4.89 times the total value of approved lines. Transactions were focused on imports from Japan, the United States, and Brazil—principally for equipment and in unclassified sectors. OMJ projects supported the productive sectors through work with suppliers belonging to the sesame export chain and through financing for small-scale producers, with mixed results (Annex IX).

4

The Government Plan and the CS promoted an ambitious public investment plan aimed at expanding coverage of basic and productive services, yet this created tension between the expansion in coverage and both service quality and long-term sustainability.

© IDB, 2013

4 Conclusions and Recommendations

GDP growth prospects in the Bolivian economy are good, although a deceleration is likely. While public finances are expected to fall back into a deficit, there is margin for financing the fiscal deficit with loans and debt bonds emissions. The IMF reduced its 2015 growth forecast for Bolivia from 5.2% to 4.3%, although this is far above the average growth rate projected for Latin America and the Caribbean (0.5%). In the medium term, under a scenario of falling hydrocarbon prices, the fiscal deficit is expected to rise as tax revenues are affected by declining export prices for gas and minerals. Nonetheless, levels of debt sustainability are in the lower ranges, and this should allow Bolivia to take on more loans or issue new bonds on international markets.

The IDB is an important financial partner for development in Bolivia, and it has succeeded in positioning itself in the sector policy dialogue. The IDB's operational program in Bolivia tripled over the 2011-2015 period when compared with earlier programming cycles. The new adjustment to the structure of IDB financing would raise the ceiling for financing to Bolivia from US$475.1 million (2015) to US$633.4 million (2016). The relevance of the CS was enhanced by its alignment with the country's development plan and its sector plans. Although the IDB continued to finance infrastructure—mainly transportation—during the country strategy period, it also succeeded in increasing funding for governance and social sectors, achieving greater leadership in the policy dialogue. The IDB's intervention models are supporting long-term reform processes (governance, water, transportation) with comprehensive solutions (drinking water and basic sanitation), and targeting its operations to areas with greater hardships or unmet basic needs (agriculture, health, drinking water and basic sanitation).

Bolivia deepened its decentralization process during the CS period. However, given its progressive nature, subnational governments still face financial, technical, and coordination weaknesses among the different levels. Under the new framework stemming from the constitutional mandate and the LMAD, the State channels substantial resources to departmental governments and municipalities in the form of departmental royalties and transfers. Among the multiple challenges created by decentralization and this institutional transformation is the need to create interagency coordination mechanisms and reduce disparities in terms of capacity at both the national and subnational levels. Subnational entities—particularly smaller municipalities—lack the financial or technical capacity to perform the new functions derived from the constitutional mandate.

The consequences of the decentralization process and the structural limitations of the market in the Bolivian economy affected the implementation of the IDB program. Sixty percent of the IDB's active portfolio is being executed at the subnational level, and this is beginning to account for a significant portion of the subnational debt. The limited efficiency of project execution in Bolivia is due in large part to the need to coordinate a multiplicity of stakeholders and the limited capacity of a number of national and subnational entities, as well as the limitation of the markets.

The Government Plan and the CS promoted an ambitious public investment plan aimed at expanding coverage of basic and productive services, yet this created tension between the expansion in coverage and both service quality and long-term sustainability. Over the evaluation period, the GofB's investment program focused on expanding coverage for most services, with positive results. The Bank succeeded in opening a dialogue to propose a more integrated intervention, targeting more disadvantaged regions and focusing on quality—particularly in the health and drinking water and basic sanitation sectors. During the next strategy period, the challenge will be to ensure quality and sustainability of these services. The accumulated experience and the analytical work undertaken in these sectors is a starting point for the dialogue surrounding future policies.

Based on these considerations and within the framework of the General Economic and Social Development Plan (2015-2020), OVE recommends the following:

1. Continue to support the implementation and consolidation of ongoing reform processes supported by the Bank during the evaluation period, while maintaining a technical and policy dialogue based on a long-term vision that allows these processes to move forward within government plans. In the sectors where the IDB has established a position through investment portfolio and where policy-based projects have also been approved (water and transportation), it is important to support consolidation of the reforms that have begun. In the sectors where the Bank has gained space through recent technical cooperation efforts and investment loans (health, energy), it would be equally important to deepen the

policy dialogue regarding structural aspects of these sectors' operations. In the next program of reforms, within a tighter fiscal context, the efficiency of decentralized public expenditure could also become increasingly important.

2. Seek ways of supporting the Bolivian government's proposals in building the capacities of subnational entities (necessary for progressive decentralization) and in the strengthening of country systems and capacities to coordinate across different levels of government. To this end, the IDB may consider establishing a formal agreement with the central government that allows it to progressively improve country systems and to work at the subnational level, reducing transaction costs and problems of multilevel coordination. Moreover, in the context of negotiations for a fiscal agreement, the Bank may also expand the focus incorporating the challenges of limited subnational management capacities and ensuring consolidated fiscal sustainability.

3. Place greater emphasis on sustainability issues in investments financed through IDB loans, so all projects systematically incorporate mechanisms to ensure operation and maintenance of services. To this end, the IDB could build on the experience of equipment maintenance arrangements developed in the health sector, or develop other agreements for transferring infrastructure works with mechanisms to ensure their sustainability.

4. Seek spaces for supporting the private sector in areas that help to boost productivity, and in which the Bank has a comparative advantage through involvement of its private sector windows. To this end, new approaches, products, and combination of financial and nonfinancial instruments offered as a result of consolidation of the Bank's private sector windows could be incorporated fully into the new strategy.

[1] In Bolivia, there is a lag in the transmission of international oil price shocks to natural gas, determined by export contracts with Brazil and Argentina that are updated on a quarterly basis. The last adjustment resulted in a reduction of 12% in the gas price, with an estimated negative impact on fiscal revenues of approximately 30%.

[2] Since 2011, domestic public debt has been falling in absolute terms and as a percentage of GDP. In May 2015, the domestic public debt stock was at US$4.2 billion.

[3] Bolivia participated in the Highly Indebted Poor Countries (HIPC) debt reduction initiative and the Multilateral Debt Relief Initiative (MDRI). Within the framework of the MDRI, Bolivia benefited from significant external debt forgiveness—a total of US$3 billion (approximately 60% of the outstanding stock)—from the IDB, IMF, and World Bank. The IDB forgave 100% of eligible disbursed FSO debt to December 2004, for a total of US$1.171 billion.

[4] As of December 2014, nonconcessional debt accounted for 69.4% of the total, with multilateral debt accounting for 44.1%.

[5] The current account balance also rose as a percentage of GDP—more as a result of an increase in international prices than the expansion in export volumes (Annex II).

[6] Net international reserves are sufficient to cover 16 months of goods and service imports. "Reporte de la Balanza de Pagos y Posición de Inversión Internacional, 2013" [2013 Report on the Balance of Payments and International Investment Position], *Latin Focus Consensus Forecast.*

[7] Standard & Poor's upgraded the country from B- in 2003 to BB in 2014, Fitch Ratings from B- in 2004 to BB- in 2014, and Moody's from B3 in 2003 to Ba3 in 2012.

[8] Part of this increase is the result of nationalizations, mainly in the energy sector.

[9] Although national or domestic private investment rose from US$496 million in 2005 to US$1.7 billion in 2014, private investment in Bolivia is among the lowest in the region as a percentage of GDP (Article IV, IMF, 2014). Between 2006 and 2014, the Bolivian government developed policies to encourage private activity, such as Law 516 on investment promotion and Law 393 on financial services, establishing maximum interest rates for productive loans and guarantee funds.

[10] The estimated cost of freight transportation is US$0.1337/MT-kilometer—higher than the average of US$0.091 for the Andean countries.

[11] *The Global Competitiveness Report 2014–2015: Full Data Edition,* pp130-131.

[12] Informal employment rate in Bolivia ranges between 60% and 80% of those employed.

[13] Sector institutions suffer from weaknesses associated with technical, coordination, and preinvestment capacities, as well as the inadequate development of instruments for the planning, management, and operation of services.

[14] According to the Centro de Estudios para el Desarrollo Laboral y Agrario [Center for Labor and Agrarian Development Studies], the unemployment rate fell from 12.1% in 2005 to 7.9% in 2011.

[15] Official Gazette of Bolivia (2007), National Development Plan: A Dignified, Sovereign, Productive, and Democratic Bolivia for Living Well. Strategic Guidelines, 2006-2011.

[16] General State Budgets, 2015. La Paz: Official Gazette of Bolivia.

[17] State "operating costs" (including public enterprises, the central government, and subnational governments) account for 90% of tax revenue (Annex II).

[18] These pillars are defined in the MAS Government Plan, ISPS 2010-2015 "Bolivia, para vivir bien" and set out the objectives of eradicating poverty and inequity, building a plurinational and social-communitarian State, diversifying the production matrix via strategic surplus-generating sectors and the development of productive infrastructure, and building a sovereign and self-determined State.

[19] Water, energy, and transportation are considered infrastructure sectors for purposes of alignment with the Bank's sector classifications. However, for purposes of thematic analysis under the National Development Plan, water and sanitation is included under Bolivia Digna, with the social sectors.

[20] The legacy portfolio includes all operations that as of 1 January 2011 had an undisbursed balance of more than 30% of the originally approved amount (Table I.2).

[21] Includes the Structured and Corporate Financing Department (SCF) and the Opportunities for the Majority program (OMJ) (loans approved for a total of US$51.1 million), as well as the MIF (loans approved for a total of US$7.33 million).

Notes

[22] Bolivia is expected to graduate from the International Development Association (IDA) at the time of the next capital replenishment (IDA-18).

[23] Of the investment grants, US$20 million correspond to the Spanish Fund for Water. This fund had approved US$80 million in support of the sector in 2009 (BO-X1004).

[24] Topics that are important for the country and were not included in the investment portfolio include gender-related violence (BO-T1193), assisting the Ministry of Justice in implementing Law 348 against gender-based violence), and the crosscutting topic of support for indigenous peoples (including Support for Peasant Farmer Indigenous Autonomies in Bolivia [BO-T1199] and the Intercultural Model for Workforce Integration of Indigenous Youth in El Alto [BO-M1064]), all approved in 2013.

[25] To fulfill debt relief commitments US$75 million in FSO debt was cancelled.

[26] In 2009 and 2010, US$19.6 million and US$6.2 million were cancelled, respectively in water (54%), agriculture (15%), and governance (15%). The average age of these projects was 10.4 years.

[27] To compare execution across periods, total execution costs for projects approved during the first four years of each strategy cycle are calculated and then compared with total disbursements for the same projects in those four years.

[28] These implementing agencies also have a lower level of execution costs per dollar disbursed than the ministries or the central government in each period under analysis.

[29] Preparation time is defined as the time elapsed between the report for the first 40 hours of work on the project and its approval date.

[30] According to IDB Management, the time elapsed between the effective date and the first disbursement is, in most cases, the result of internal administrative processes such as the subsidiary agreements that must be signed between Planning, Economy and Finance, and the executing agency, transferring responsibility for administration of the loan proceeds.

[31] The analysis focuses on the period subsequent to eligibility so as to avoid comparing portfolios in countries with different ratification processes (i.e. parliamentary ratification, executive ratification, etc.).

[32] The Sector Annexes include detailed analysis of implementation problems in each sector.

[33] With the changes in project execution` arrangements—involving transfer of the debt to subnational governments—subsidiary agreements became regulatory instruments.

[34] The San Buenaventura–Rurrenabaque bridge (BO-L1011) was not part of the initial socioenvironmental assessment of the loan, as it was not part of the financing. Upon its incorporation following an amendment, residents who considered themselves impacted without just compensation brought their complaints before the ICIM. Processing of this complaint led to substantial delays, which ultimately led to the government's withdrawal of the project from the financing and the closure of the case before the ICIM.

[35] Indicators in the 2010 surveys on monitoring the Paris Declaration point to two trends: (i) IDB use of country systems is mainly through budgeting (100%) and to a much lesser extent through financial reporting systems, audit (0%), or procurement (29%); (ii) these trends are similar to those of the IDB in other countries and those of other development partners in Bolivia. Bolivia is not in the sample for the 2012 survey. Organization for Economic Cooperation and Development (2015).

[36] The People's Republic of China become a new financing source in 2015 and is projected to finance 14% of the ABC's budget.

[37] From 2009 to 2014, an average of 361 km was rehabilitated annually—25% below the projection of 478 km per year. The paved RVF expanded from 5,787 km (2008) to 5,988.3 km (2014); an additional 2,200 km are under construction.

[38] The ABC has reached the limit of its executive capacity. Its investment budget has tripled since 2007, while staffing has increased by only 13%.

[39] Although the use of performance-based maintenance helped to keep the service index above the 90% established in the contract, the ABC believes that applying this model to the entire RVF could triple the amount currently invested in routine maintenance.

[40] The other projects (transmission line and rural electrification) are under execution, with disbursement levels of 53% and 75% (see Annex IV for further details).

[41] The Misicuni hydroelectric project is highly complex. There is a risk that the electromechnical works under loan BO-L1043 will be completed without the upstream and downstream works being ready. The project requires institutional coordination between the Ministry of Planning, the Prefecture of Cochabamba, and Empresa Misicuni for the upstream works, and Empresa Misicuni, ENDE, SEMAPA, and the Prefecture of Cochabamba for the downstream works.

[42] Consolidation of the RUB may be a useful tool for improving the system for monitoring social programs, making their targeting possible. Financing was also provided for other technical studies, including the impact evaluation of the Bono Juana Azurduy transfer program.

[43] Operation BO-L1067 (2011) disbursed 13% of funds. Operations BO-L1078 and BO-L1082 disbursed 27%, relating mainly to the procurement of equipment for the El Alto Norte hospital.

[44] The ministries' technical staff has little experience in infrastructure construction. The capacity of the subnational governments is also limited.

[45] The El Alto hospital, which has already been equipped, has several sections that are not being used owing to a lack of doctors.

[46] One basic problem is the lack of clarity in the regulations for Law 070, which implements the diploma in humanities and technical studies.

[47] An accelerated expansion of water and sanitation service coverage is included as a basic objective of the *Bolivia Digna* pillar in the 2010-2015 Government Plan.

[48] A fundamental difference between the government's MI AGUA program (drinking water) and IDB programs (drinking water and basic sanitation) is its comprehensive nature. The average value of IDB programs is also higher than that of the MI AGUA program.

[49] Although 44 Empresas Públicas Sociales de Agua y Saneamiento [Public Social Water and Sanitation Companies] (EPSAs) were created to manage services, the sustainability of these operators and their technical capacity is not guaranteed.

[50] The portfolio includes 10 operations for a total of US$270.3 million (Annex VIII).

[51] This was the case with respect to a series of two programs supporting fiscal policy and decentralization (BO-L1061 and BO-L1062, approved in 2010 and 2011, respectively, and a series of three programs supporting improvements in public expenditure effectiveness (BO-L1005, BO-L1010, and BO-L1081, approved across three programming periods in 2005, 2010, and 2013.

[52] It should be noted that the Bank contributed with technical advisory support by specialized staff or consultants to the development of the LMAD, the draft Treasury and Public Credit Law, and the Action Plan for Improving Public Financial Management, as well as to the design of the Territorial Statistics System (SIET).

[53] The structural depth of the reforms varies in the three operations: most are of medium depth (57% to 64%), with between 2 and 6 of high structural depth per PBL (14% to 36% of proposed actions).

[54] The main achievements include the introduction of a multiyear budget linked to the macrofiscal framework; the inclusion of public enterprises in the budget; the introduction of management agreements; the regulatory reorganization of public investment formulation; and the improved integration of the SIGMA (Sistema Integrado de Gestión y Modernización Administrativa [Integrated Administrative Management and Modernization System]) and SIGEP (Sistema de Gestión Pública [Public Management System]) fiscal management systems.

[55] Although submission of the draft Budget Framework Law to the Plurinational Legislative Assembly was included as a conditionality under BO L1005 and BO-L1010, no consensus could be reached in favor of its approval as it would not have helped to integrate fragmented budget legislation. Similarly, the draft Access to Information Law was marginalized in the legislative process.

[56] The legacy portfolio projects for the agricultural sector had a disbursement percentage higher than 50% during the period 2011-2015. These projects were not included in the previous CPE.

[57] For more complete analysis of the relevance of IDB intervention models relating to the provision of private goods in the agricultural sector, see Bank's Support to Agriculture, 2002-2014, July 2015.