

**REPUBLIC OF BOLIVIA**



**POVERTY REDUCTION STRATEGY PAPER—PRSP**

*ESTRATEGIA BOLIVIANA DE REDUCCION DE LA POBREZA—EBRP*

**LA PAZ, BOLIVIA  
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## ACRONYMS

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ANA	National Water Authority
AP	Popular Actions
ARI	Acute Respiratory Infection
ASLs	Local Social Associations
BCB	Central Bank of Bolivia
BPRS	Bolivian Poverty Reduction Strategy
CEI	Centers, Schools, and Institutes
CEPB	Bolivian Confederation of Private Entrepreneurs
CETAs	Technical and Agricultural Education Centers
CGR	Office of the Comptroller-General of the Republic
CIDI	Comprehensive Child Development Centers
CIDOB	Councils of the Native Peoples of Eastern Bolivia
CIL	Interministerial Commission on Limits
CIM	Municipal Integrated Centers
CNE	National Electoral Board
CNPV	National Population and Housing Census
CONACYT	National Science and Technology Council
CONAES	National Council of Higher Education Accreditation
CONAMAQ	National Council of Ayllus and Markas of Qullasuyu
CONAPE	National Economic Policy Council
CONAPSO	National Social Policy Council
CONARADE	National Council for Disaster Reduction and Management and/or Emergencies
CPE	Political Constitution of the State
CRPs	Pedagogical Resource Center
CSUTCB	Single Trade Union Confederation of Rural Workers of Bolivia
CVs	Vigilance Committees
DGB	Directorate General of Biodiversity
DGCSA	Directorate General of Environmental Control and Monitoring
DGCTC	Directorate General of Land and River Basin Management
DGDF	Directorate General of Forestry Development
DGSR	Directorate General of Land and Irrigation

## ACRONYMS

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DILOS	Local Health Directorates
DN	National Dialogue
DUF	Single Funding Directorate
ECLAC	Economic Commission for Latin America and the Caribbean
EDA	Acute Diarrhea
EIAs	Environmental Impact Assessment
ELECTROPAZ	La Paz Electricity
EMFs	Microfinance Entities
ENDSA	National Population and Health Survey
ENTEL	National Telecommunications Enterprise
EPA	Economically Active Population
EPSAs	Water Utilities
ESB	Bolivian Social Strategy
FCC	Collective Capitalization Fund
FDC	Rural Development Fund
FDI	Foreign Direct Investment
FDTAs	Foundations for the Development of Agricultural Technology
FIS	Social Investment Fund
FNDR	National Rural Development Fund
FOMCALIDAD	Higher Education Quality Improvement Fund
FONDESIF	Fund for Financial System Development and Support for Microenterprise
FONVIS	National Social Housing Fund
FPS	National Productive and Social Investment Fund
FRM	Revolving Fund for Medications
FSE	Emergency Social Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
GM	Municipal Government
HIPC	Heavily Indebted Poor Countries
IBEE	Bolivian Institute of Business Studies
ICE	Specific Consumption Tax
IDB	Inter-American Development Bank

## ACRONYMS

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IEHD	Special Hydrocarbons Tax
IFPT	Vocational and Technical Training Institutes.
IGM	Military Geographic Institute
INBOPIA	Bolivian Institute of Small Industry and Crafts
INCOOCAP	Cooperative Training Institute
INE	National Statistical Institute
INRA	National Agrarian Reform Institute
INS	Advanced Teacher Training Institutes
IPDs	Private Development Institutions
IT	Transaction Tax
MACPIO	Ministry of Rural Affairs, Indigenous and Native Peoples
MAGDR	Ministry of Agriculture, Stockbreeding, and Rural Development
MDE	Ministry of Economic Development
MDH	Ministry of Human Development
MDSM	Ministry of Sustainable Development and the Environment
MEBC	Culturally-Focused Microenterprises
MECOVI	Improvement in Living Conditions Survey
MECyD	Ministry of Education, Culture, and Sport
MERCOSUR	Southern Cone Common Market
MH	Ministry of Finance
MJ	Ministry of Justice
MSPS	Ministry of Health and Social Insurance
MTM	Ministry of Labor and Microenterprise
MVSB	Ministry of Housing and Basic Services
MyPEs	Microenterprises and Small Businesses
NAFIBO	<i>Nacional Financiera Boliviana</i>
NGO	Nongovernmental Organization
NPE	New Economic Policy
NPV	New National Housing Policy
ODECO	Consumer Protection Office
OECD	Organization for Economic Cooperation and Development
OMF	Microfinance Organization



## ACRONYMS

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OTB	Grassroots Territorial Organization
PAI II	Expanded Immunizations Program II
PAN	Program of Care for Boys and Girls Younger than 6
PASA	Food Security Program
PCP	Law on Property and Cooperative Credit
PD	Poverty Diagnostic (WB 2000)
PDCR	Rural Community Development Program
PDI	Indigenous Development Plan
PDMs	Municipal Development Plans
PEB	Bolivian Economic Program
PEN	Nuclear Education Projects
PES	Strategic Health Plan
PETA	Adult Technical Education Programs
PIDI	Comprehensive Childcare Program
PLFSIF	Draft Law on Strengthening the Financial Intermediation System
PNC	National Compensatory Policy
PNM Bol	National Medications Program
PNSV	National Program of Housing Subsidies
POAs	Annual Operational Programming Exercises
PRE	Educational Reform Program
PRI	Institutional Reform Program
PRODISE	Integrated Seeds Development Program
PROISS	Comprehensive Health Services Project
PROMEs	Municipal Education Programs
PRONAM-6	National Program of Care for Children younger than 6
PRONAR	National Irrigation Program
PRONER	National Rural Electrification Program
PRONTER	National Rural Telecommunications Program
PROSABAR	Rural Basic Sanitation Program
PROSAT	Technology Assistance Services Program
PROTRIGO	Wheat Program
PSD	Departmental Development Programs

## ACRONYMS

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PSF	Integrated Program of Basic Health Services and Institutional Strengthening for the Sector
PyMEs	Small and Medium Scale Enterprises
RENAPI	Regulations Governing the National Register of Crafts and Small Industry
RITEX	Temporary Admission of Exports
SAFCO	Financial Administrative and Governmental Control System
SAT	Technical Assistance Service
SAYCO	Administration and Control Systems
SBEF	Superintendency of Banks and Financial Institutions
SBS	Basic Health Insurance
SEDES	Departmental Health Services
SEDUCA	Departmental Education Services
SEN	National Education System
SENASAG	National Agricultural and Livestock Health Service
SERNAP	National System of Protected Areas
SIBTA	Bolivian Agricultural Technology System
SIE	Education Information System
SIG	Georeference Information System
SIGMA	Integrated Management and Administrative Modernization System
SIMECAL	System for Measuring Quality in Education
SIREFI	System for Regulating the Financial System
SIRENARE	System for Regulating Renewable Natural Resources
SIRESE	Sectoral Regulation System
SISER	System for Monitoring and Evaluating Performance-Based Government Management
SISIN	Public Investment System
SISPLAN	National Planning System
SISRADE	National System for Risk Reduction and Disaster Management
SIVEX	One-Stop Shop for Exports
SLIs	Comprehensive Legal Services
SMV	Medical Insurance for Old Age
SNAP	National Personnel Management Service

## ACRONYMS

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SNC	National Roads Service
SNIS	National Health Information System
SNMN	National Maternity and Child Insurance
SPNF	Nonfinancial Public Sector
SVEN	Nutritional Vigilance System
TCO	Native Community Territory
TGN	General Treasury of the Nation
TI	Terms of Trade
UBN	Unsatisfied Basic Needs
UDAPE	Social and Economic Policy Analysis Unit
UDAPSO	Social Policy Analysis Unit
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UPF	Fiscal Programming Unit
UTOAF	Operational Technical Unit for Support and Strengthening
VAF	Office of the Vice Minister of Financial Affairs
VAGGF	Office of the Vice-Minister for Gender, General Affairs, and Family
VAT	Value-Added Tax
VICI	Office of the Vice Minister of Industry and Domestic Trade
VIPFE	Office of the Vice Minister of Public Investment and External Financing
VMEH	Office of the Vice Minister of Energy and Hydrocarbons
VMME	Office of the Vice Minister of Microenterprise
VPN	Net Present Value
VPEPP	Office of the Vice Minister of Strategic Planification and Popular Participation
VTAC	Office of the Vice Minister of Transportation, Communications, and Civil Engineering
WB	World Bank
WTO	World Trade Organization

## PREFACE

1. Bolivian Poverty Reduction Strategy (BPRS) is rooted in an irrefutable premise: poverty, inequity, and social exclusion are the most severe problems affecting democracy and governance in Bolivia, and that, in consequence, the preservation of democracy demands that the highest priority be given to meeting these challenges.
2. Eighteen years of democracy and 15 years of structural adjustment have laid a foundation for economic stability, but they have not paved the way for the elimination of social exclusion, nor has satisfactory progress been made in the fight against poverty. Consequently, although the Strategy is being implemented in a context of a market economy, and the need to maintain stability in regard to macroeconomic variables is recognized, it also states that the issues of concern to the people must be dealt with simultaneously – namely, the problems of social exclusion, inequity, and poverty.
3. The social turmoil witnessed in April and September 2000 sent a clear signal regarding the risks that the continuing existence of poverty, inequity, and social exclusion can pose for democracy. Moreover, the fresh theoretical approaches toward these issues currently emerging worldwide, including the changing policies of the international organizations, point to the need for development and equity to be considered in tandem. The BPRS is a proposal for moving forward along this road, but like any document it requires political commitment on the part of the State, its political system, and stakeholders in society in order to be put into practice.
4. The aim of the BPRS is to make strides in the design of economic policy, on the understanding that, although growth is a prerequisite for overcoming poverty and reversing inequity, growth alone is not sufficient—in and of itself—to achieve that goal. The BPRS, therefore, is pressing for deliberate and incisive action on the part of the State to tackle poverty and social exclusion.
5. The BPRS endeavors to narrow the gap that exists between economic policy and social policy, so that the determination of the State will be focused not only on growth targets, but also on poverty and social-exclusion reduction objectives. The BPRS has a global vision, and accordingly includes the foundations of a development strategy in which production plays a key role.
6. There is no suggestion in the BPRS that the State alone should be responsible for fighting poverty, for it does not pretend to encourage a return to State paternalism: rather, the fight against poverty calls for joint responsibility to be shouldered by the various members of society and the State. Accordingly, under the Strategy, the fight against social exclusion is viewed as another area for the development of the role of the citizenry, for without citizens who are aware of their rights and obligations it will be difficult to fight poverty. At the same time, however, this requires the political system and society to undertake a coordinated effort to tackle poverty.

7. The emphasis on joint responsibility between the State and society in combating social exclusion induces the BPRS respect and seek to develop the entire social capital that Bolivians have accumulated, whether in their communities, or in neighborhood, youth, religious, or other organizations. Along those lines, the development of participatory mechanisms for debate and social accountability created through Popular participation should be promoted and used to work on specific matters pertaining to the fight against poverty. Given that poverty and social exclusion are rooted in a variety of causes, and hence are multidimensional in nature, the BPRS endeavors to provide a variety of responses in regard to these different facets of poverty. One of these consists of recognizing that, without involving the poor themselves, it will be impossible to succeed in the fight against poverty. Hence the need to empower society and open up new opportunities so that the population can take part in designing and implementing solutions to the problems of poverty.

8. The first step toward recognizing the need for the general public to become involved in steering the Strategy consists of making democratic debate a central element in improving the quality of democracy. National Dialogue 2000, although it has the limitations inherent in any participatory process, marks a step toward accepting debate between society and its political system in order to reach agreement on the central features that will define the course of a strategy to fight poverty.

9. The National Dialogue, which was the essential forerunner and source of input to the BPRS, was designed as a public forum in which society's participants, both territorial and functional, could join with the political system's players and agree on a State policy for the fight against poverty and social exclusion. Thus, the key feature of the BPRS, beyond its technical components, is that it has endeavored to reflect the conclusions of the National Dialogue, Jubilee 2000, the Liaison Committee [*Comité de Enlace*], and other participatory mechanisms; in other words, the BPRS draws on a deliberative process so that those agreements may be transformed into public policy, and indeed into the policy of the State, thereby transcending the customary short-term perspectives that are common in Bolivia.

10. The BPRS is based on a recognition of the existing institutional structure, which it seeks to utilize and enhance. Accordingly it reflects the conclusions emerging from the National Dialogue, and the emphasis placed on recognizing the municipalities as the most legitimate and suitable institutional arm to develop actions to fight poverty. In that sense the BPRS carries a clear message of promoting and deepening decentralization, as it fully embraces the principle of subsidiarity.

11. Corruption is one of the obstacles leading to inefficiency by the State in implementing public policy, and is an especially sensitive issue. Participants in the National Dialogue identified problems in regard to the exercise of discretionary powers and corruption in the use of public resources to fight poverty, and it is no doubt for this reason that they proposed an automatic mechanism for transferring HIPC II resources to the municipalities, similar to the mechanism used for the Popular Participation initiative [*Participación Popular*]. The actions of the BPRS are based in part on the agreement which emerged from

the National Dialogue and takes a progressive approach toward the use of the HIPC II resources in distributing them on the basis of poverty criteria.

12. Nevertheless, the issue of corruption and the discretionary use of funds goes beyond the administration of the HIPC II funds, and so the BPRS includes the monitoring and social control mechanisms agreed upon in the National Dialogue, but does so from the standpoint of strengthening the control institutions that already exist, such as the vigilance committees and departmental councils. Under the BPRS it is not felt that these institutions should be substituted; on the contrary, it is felt that they must be strengthened.

13. It is also recognized that the State requires strengthening as well: it needs to be made highly competent and capable, so that it can become a genuine instrument of public service and provide efficient, transparent administration. This objective is being pursued through specific policies aimed at strengthening key public bodies in implementing the BPRS.

14. The BPRS is not based on the view that the fight against poverty ends with the effort to assure greater social investment. Rather, it assumes that existing resources must be used with greater transparency, and it places emphasis on improving the quality of social investment; for social investment it is not enough to increase the amount of resources, it must also be of higher quality.

15. The National Dialogue proposed introducing equity into the distribution of HIPC resources to the municipalities by using poverty indicators, a mechanism which ensured that the resources would reach the poorest segments of the population. The BPRS embraces those conclusions, and seeks to promote equity not only by adhering to that distribution criterion, but also by following the same approach and implementing a specific compensation scheme by converting the Development Funds and assuring the transparent administration of resource transfers.

16. However, it is not enough to support the automatic transferring of HIPC II resources to the municipalities: it is also necessary to ensure that the municipalities will utilize those resources for the priorities identified in the National Dialogue, which are included among the priorities included in the Strategy. In order for that to happen, there will have to be joint responsibility not only between the State and society, but also between the central government (which must turn those funds over automatically to the municipalities) and the municipalities, which must make use of those funds in accordance with the priorities laid down in the Strategy.

17. The BPRS explicitly recognizes that extreme poverty is prevalent in rural areas, and that indigenous people and peasants – and particularly women in both groups – suffer most acutely from social exclusion. It is in far-flung areas that one encounters the most serious manifestations of social exclusion on the basis of ethnicity and gender, and for that reason a focus on combating rural poverty holds a high place among the actions envisaged pursuant to the BPRS. Nevertheless, even with the fight against rural poverty having been highlighted in

this way, the BPRS reflects the understanding that a great deal more practical work is still needed if further headway is to be achieved in this matter.

18. Although the BPRS highlights actions aimed at tackling rural poverty, rural and urban areas nevertheless share some points in common in this regard. For example, in both rural and urban areas the State's effort is essential in order to create opportunities for developing human capital, for without human capital no country (let alone Bolivia) can hope to extricate itself from poverty or to eliminate social exclusion.

19. The BPRS incorporates a cross-cutting treatment of gender, environmental, and ethnic issues. However, it recognizes the need for a more extensive and considered approach so that these subjects, which are fundamental to the struggle against poverty and the quest for equity, may be dealt with more thoroughly. The BPRS still reflects the tension that exists between treating these subjects as cross-cutting issues and treating them as individual sectors.

20. Implicit in the BPRS is an awareness of the fact that, owing to the growing pace of migration from the countryside to the cities, the poor are more heavily represented in urban areas in absolute terms; and for that reason the BPRS contains specific policies aimed at combating urban poverty. However, at a time when the State is no longer the largest employer, it is no simple task to solve employment problems, which are the most severe challenges confronting those who live in the cities.

21. The concepts embodied in the BPRS and the political aim of improving the quality of democracy are explicitly reflected in objectives and targets that are feasible, quantifiable, and verifiable, and which must be observed by the political system and society. In that regard, it is essential that political parties and entities from civil society monitor the fulfillment of the targets laid down in the BPRS.

22. If society and its stakeholders were empowered when the components of a strategy for fighting poverty were proposed, then from that point forward they are imbued with a greater degree of accountability – because they will require additional empowerment, based on the premise of shared responsibility, in order to exercise social control alongside the political system in an effort to determine whether or not the targets of the BPRS are being fulfilled. Similarly, such coordination will be essential to improve the design and implementation of social policies.

23. The institutional structure associated with the Strategy could not be finalized without waiting for the National Dialogue to reach its conclusion, for the National Dialogue sets out the lines of institutionalizing a system for exercising monitoring and social supervision with respect to the fulfillment of the Strategy; however, establishing a mechanism through which that social control can be exercised requires the strengthening of the existing public institutions without adversely affecting the participatory institutions that have entailed so much effort for Bolivia's society and democracy to achieve.

24. The State's commitment to allowing societal supervision with respect to the fulfillment of the BPRS's objectives must be made explicit in its commitment to provide

timely, transparent information regarding the fight against poverty. What are needed are clear, easy to interpret indicators which will show whether progress is indeed being made in line with BPRS objectives; but just as important as the timely preparation of indicators is ensuring a fully democratic approach toward their use.

25. The BPRS lays out a general pathway for the efforts to be undertaken to overcome social exclusion and combat poverty, but it is a pathway susceptible to continual improvement. Each government authority can make the adjustments it considers most effective in order to achieve the best results, without prejudice to the objectives that have prompted the participants to establish particular priorities and identify specific areas as requiring urgent attention.

26. The BPRS is an attempt to interpret the will, the priorities, the concerns, and the agreements that were the outcome of the participatory mechanisms which led to the holding of National Dialogue 2000. Certainly, it reflects a State's reading of that outcome, but the key point is that there is a will to take the agreements reached between Bolivian society and its political system and to convert them into public policy and State policy. The BPRS has its limitations, but as a living document, and insofar as the will and capacity to implement it exist, it can be improved, following an incremental approach that does not attempt to sweep everything aside and eschews constant radical overhauls. An example is the workshop organized by the government, with the participation of civil society, entitled "The Government Listens," with a view to improve the Strategy. What is needed is an effort to achieve continuity to press forward the express demands society has made.



## I. INTRODUCTION

1. In the past 15 years, Bolivia has introduced major structural reforms and institutional changes that have promoted stability and led to economic recovery. In the 1990s the economy expanded by about 4 percent annually, exceeding the average among Latin American countries.

2. Since the late 1980s, the State has taken a number of steps to alleviate poverty by establishing a policy framework for education, health, and basic sanitation. In the mid-1990s, Popular participation and decentralization gave municipal governments greater authority in the area of providing basic services, transferred shared tax revenues to the financing of social programs, and introduced social control practices by recognizing community and neighborhood organizations. The end result of this process was an increase in the social investment carried out through the municipalities, which made it possible to broaden the basic social infrastructure.

3. Between 1976 and 1992, the percentage of the population with basic unmet needs declined by 1.2 percentage points per year, from 85 percent to 70 percent.<sup>1</sup> Comparisons between the beginning and end of the 1990s show an increase in life expectancy from 58 to 62 years of age, a decline in infant mortality from 75 per thousand to 67 per thousand live births, and an increase in the adult population completing at least primary school from 38 percent to 51 percent. These results, however, remain below average levels for Latin American countries during the same period.

4. The State's efforts were affected by fiscal constraints which precluded increasing spending levels and social investment to desirable levels; moreover, the quality of investment declined on account of institutional weaknesses and/or the deficient management capacity of the municipalities and prefectures. In 1997, Bolivia had the opportunity to participate in the debt reduction initiative for heavily indebted poor countries (HIPC Initiative), a program designed to benefit selected countries through a reduction in some of their multilateral and bilateral debt, thereby contributing to macroeconomic stability and to freeing resources to be used to fight poverty. Experience with the first phase of the HIPC Initiative involved defining indicators and goals for education, health, rural development, and poverty, and significant experience was gained in results-based policy evaluation.

5. The National Dialogue for 2000 involved the contribution of grassroots mechanisms such as the Jubilee Forum, the Liaison Committee [*Comité de Enlace*], and other social

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<sup>1</sup> The method of measuring poverty by Unsatisfied Basic Needs (UBNs) is based on indicators on the availability of basic services, housing quality, and education levels. Poor households or households with UBNs are those suffering from privation or with levels of well-being below the minimums for each of the indicators mentioned.

organizations, which provided important input for the agreements reached by the Dialogue effort, in particular in the municipal roundtables. The process highlighted the need to prioritize the fight against poverty and to make this issue part and parcel of the public agenda.

6. Against this backdrop which gave rise to the Bolivian Poverty Reduction Strategy (BPRS), this paper explicitly acknowledges the importance of mainstreaming policies which target poverty reduction and establishes the basis of shared responsibility between the government (at the central, departmental, and municipal levels) and civil society, the outgrowth of the participation of the people via the National Dialogue. The Strategy identifies actions that are financially viable and proposes improvements in institutional capacities aimed at moving forward with decentralized and participatory programs. The poverty reduction policies further acknowledge Bolivia's ethnic and cultural diversity and are intended to lay the groundwork for development which reflects a framework for the sustainable management of natural resources.

7. The BPRS paper is dynamic, and opens the possibility of adjusting, adding, or replacing programs in light of changes in the political and economic environment, while maintaining the overarching objective of reducing poverty. The results of the Dialogue were important inputs in the process of preparing the BPRS, an early version of which was provided to and discussed with civil society. With a view to fine-tuning the Strategy, a round-table seminar called "The Government Listens" was conducted, and made it possible to introduce changes suggested by various sectors of society.

8. The Bolivian Poverty Reduction Strategy acknowledges the close relationship between economic growth and changes in the level of poverty, which suggests that economic policies are dependent on progress in social policy, and that achievements in the social area will be determined largely by economic performance. Actions are proposed to broaden the basis for future growth, by involving small producers, rural communities, and indigenous peoples in benefiting from economic activity more equitably, by increasing production capacity, by acknowledging special characteristics of cultural development, and recognizing potential for the use of resources.

9. The BPRS paper has four strategic components: (a) enhanced employment and income opportunities; (b) building the productive capabilities of the poor; (c) enhanced security and protection; and (d) promotion of social integration and grassroots participation. The Strategy also includes actions targeting the sustainable optimization of the environment, gender equality and equality among ethnic groups, and institution building to promote a backdrop of transparency, legal security, and full exercise of democracy. Within this framework, priority actions will be identified to support rural development, the development of micro-enterprises and small enterprises, technical assistance, and road infrastructure, as well as (primary) education, primary health care, basic sanitation, and comprehensive attention to youth. In addition, an institutional framework will be developed for combating corruption so as to ensure equal opportunity.

10. The Strategy vests primary responsibility for poverty reduction activities in the municipalities, which will gradually assume responsibility for administering education and health services, will be involved in the creation of the economic infrastructure, and will have a leading role to play in promoting the local economy. In exchange, resources under HIPC II will be transferred automatically and in their entirety to the municipalities in accordance with an equitable distribution formula. In addition, public investment resources and compensation policy resources will be oriented toward the chosen priorities, and will take account of recurrent expenditure requirements so as to ensure that social investment remains functional and sustainable.

11. Indicators and goals to measure advances or slippages have been established for purposes of monitoring and evaluating the Strategy. The production of data on progress in the fight against poverty will strengthen social control.

12. This paper on Bolivia's poverty reduction strategy (BPRS) has 10 chapters. Following this introduction, Chapter II describes the government's poverty reduction efforts in recent years. Chapter III identifies the magnitude, intensity, and characteristics of urban and rural poverty. This information is supplemented with the contribution of the National Dialogue, which is described in Chapter IV. Chapter V discusses the key components of the Strategy, indicating the objective, the strategic components, the actions that each component entails, and a definition of priorities. Chapter VI identifies institution-building actions, and Chapter VII provides a detailed description of resource allocation and financing mechanisms and criteria. Chapter VIII defines the goals of the Strategy, as well as the methods to be used for monitoring and evaluation. Chapter VIII discusses the macroeconomic context; and last, Chapter X describes the role of international cooperation in the framework of Bolivia's poverty reduction strategy.

## **II. STRUCTURAL REFORMS, GROWTH, AND POVERTY**

### **A. Structural Reforms**

#### **Macroeconomic policies**

13. Beginning in 1985, the government began the structural reforms that made it possible to stabilize the economy and bring about conditions conducive to growth. These reforms redefined the role of government, turned the economy toward a free market direction, and promoted opening to the rest of the world. Actions were established to liberalize markets for goods and factors, open the economy to foreign trade, and liberalize the financial system.

14. The fiscal measures made it possible to reduce expenditure and increase tax revenue to narrow the deficit. The tax reform was applied, under which the number of taxes<sup>2</sup> was reduced, collection mechanisms were simplified, the universe of taxpayers broadened, and special regimes were established which favored small rural property ownership and small taxpayers, with a view to pursuing more equitable taxation. Expenditure control and reduction measures were applied to maintain a sustainable deficit level, as was strict control of monetary issue through restrictions on domestic credit from the central bank.

15. Market liberalization began with government deregulation of domestic prices to enhance the transparency of operations carried out by economic agents involved on the goods and services market. On the labor market side, flexibility was enhanced by deregulating hiring and by consolidating special bonuses into the basic wage. In this way, prices regained their capacity to send adequate signals to economic agents.

16. Opening the economy to foreign trade made it possible to reduce the production costs of tradables. Customs tariff dispersion was eliminated, quasi-tariff barriers were reduced, and a tariff system featuring low, uniform rates was adopted.<sup>3</sup>

17. Exchange policy consisted in establishing a real, single, and flexible exchange rate through mini-devaluations (crawling peg)<sup>4</sup>. A competitive real exchange rate was maintained through ongoing depreciation of the nominal exchange rate and low domestic inflation levels. The allocation of foreign exchange through the auction mechanism [*Bolsín*] restored competitiveness to the market.

18. To promote exports, and particularly nontraditional ones, mixed institutions were established to support the export sector. Measures such as the drawback certificate

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<sup>2</sup> The system now includes direct and indirect taxes: Value-added tax (VAT), at the rate of 13 percent; supplementary VAT levied on personal income at the rate of 13 percent; specific consumption tax [*impuesto al consumo específico*—ICE] applied at different rates to consumption of fuel, alcohol, and cigarettes; transaction tax [*impuesto a las transacciones*—IT] in the amount of 3 percent, which is corporate earnings tax deductible; the 25 percent tax on corporate earnings; the *ad-valorem* tax on ownership of real property and vehicles; and the tax on grants and inheritances.

<sup>3</sup> Prior to 1985, customs tariffs ranged from 0 percent to 180 percent, and volume and value quotas were in place for certain goods imported under pre-existing import licenses; these included protectionist measures. Subsequently, a 20 percent uniform single tariff was applied, which has now been reduced to rates of 0 percent-5 percent on capital goods and 10 percent for other goods as provided by the Economic Recovery Law.

<sup>4</sup> The auction mechanism (*Bolsín*) involves auctions of U.S. dollars, whereby the central bank uses the foreign exchange supply to determine the price of foreign exchange. Individual requests to buy foreign exchange are submitted based on the offered price.

[*Certificado de Reintegro Arancelario*] and customs drawbacks were implemented. These measures increased exports of nontraditional goods and imports of capital goods. The elimination of quantitative restrictions and tariff reduction led to improved expectations in the tradables sector.

19. To reactivate the financial system, the free movement of capital mobility was established and interest rates were liberalized. The central bank was reorganized to give it autonomy in the management of monetary and exchange policy, and the Superintendency of Banks was established. Capital mobility made it easier for commercial banks to attract deposits in foreign exchange, which led to increased deposit taking, stimulated credit, and the repatriation of capital. These measures were supported by new regulations, supervision, and support for the banking industry.

20. Promulgation of the Law on the Securities Market in 1998 made it possible to develop the securities exchange; while the Insurance Law defined the standards for that sector. The Law on Popular Ownership and Credit was promulgated to enhance microcredit activities.

21. The Investment Law established a framework for facilitating inward and outward foreign capital flows and guaranteeing the repatriation of profits. Supplementing these, sectoral provisions such as the Mining Code, Hydrocarbons Law, and the Laws on Forestry and the Environment were promulgated.

22. The Laws on Privatization and Capitalization made it possible to attract foreign capital for enterprises in the energy, hydrocarbons, communications, and transportation sectors, which fostered technological innovation. The Law on Popular Ownership and Credit furthered this process and had social and redistributive effects, giving the worker population a stake in enterprises through pension funds and the collection of life annuities.

### **Institutional changes**

23. Under the Law on Popular Participation, resources were transferred to the municipalities, which were delegated the responsibility to provide and administer basic services. This process led to increased social investment, encouraged the participation of civil society through the establishment and acknowledgement of rural communities, indigenous populations, and neighborhood organizations, and ushered in participatory planning mechanisms while introducing the concept of social control. With administrative decentralization, technical and administrative functions were delegated to the departmental prefectures, to improve the efficiency of public services and promote regional development.

24. In addition, policy and administrative reforms were applied with a view to increasing the efficiency of the institutionalized and independent public sector. The Constitutional Court, responsible for compliance with constitutional standards; the Judicature Council, an administrative and disciplinary body of the Judicial Branch; and the Office of the Ombudsperson [*Defensoría del Pueblo*], to guarantee citizens their rights and liberties, respectively, were established.

25. The reforms of the judicial system ensured the rule of law, with a view to preserving an environment conducive to conducting business. In this connection, the new Criminal Procedures Code and Civil Procedures Code were promulgated.

26. The Customs Reform, Civil Service Program, Civil Service Staff Regulations, and institutionalization of the Internal Tax Service were aimed at ensuring transparency in public administration, which will need to be strengthened in the public sector institutions, particularly within the decentralized bodies.

### **B. Economic Growth And Poverty**

27. The economic growth of the 1990s was based primarily on performance in the capital-intensive sectors, such as electricity, transportation, and financial services, which achieved annual growth rates in excess of 4.5 percent, as compared with growth in other more labor-intensive sectors such as manufacturing (3.8 percent) and traditional agriculture (2.5 percent).

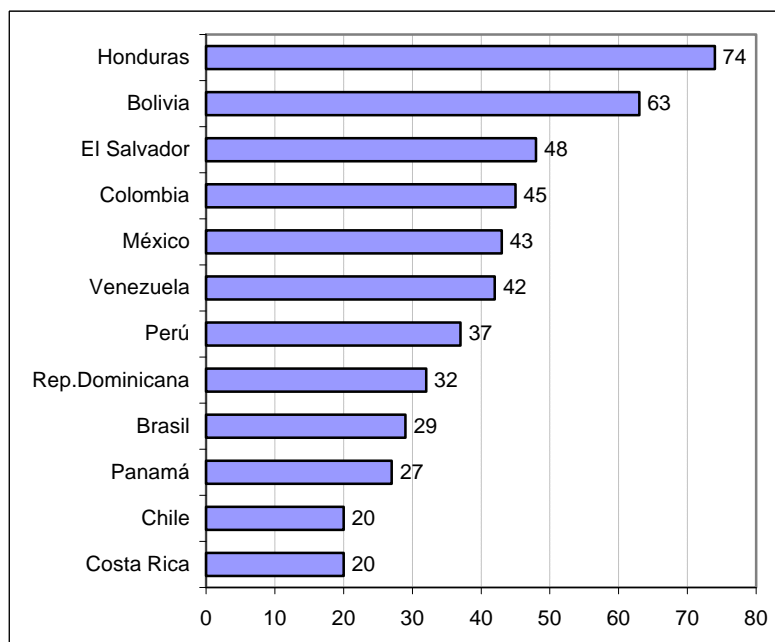
28. There were significant disparities in regional economic growth, particularly in the Departments of Santa Cruz, Cochabamba, and Tarija, which experienced average economic annual growth levels of 5.7 percent, in contrast with poorer regions such as Chuquisaca, Potosí, and Beni, for which growth levels were below an annual rate of 2.5 percent.

29. The poverty level in Bolivia is one of the highest in Latin America. Poverty measured in terms of falling below the poverty line affected 63 percent of Bolivians in 1999, a percentage that is significantly higher than the regional average (36 percent), and the Headcount Index of poverty is approximately three times higher than in countries having lower poverty levels<sup>5</sup>.

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<sup>5</sup> Poverty as measured by inadequate income defines as poor those persons whose *per capita* family income is less than the cost of a basic basket of goods and services fulfilling basic food and non-food needs.

Chart 2.1  
Latin America: National Headcount Index of Poverty  
at the end of the 1990s (in percent)



Estimates based on the poverty line approach.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), 1999 and Social Policy Analysis Unit—National Institute of Statistics (UDAPE-INE).

30. Poverty reduction in Bolivia is sensitive to growth. Data generated throughout the 1990s indicate that a 1 percent increase in per capita income has the potential to generate a 0.6 percent reduction in urban poverty and a 0.5 percent reduction in rural poverty.<sup>6</sup> The better the income distribution and the broader the base of growth involving labor-intensive sectors, the greater the impact on poverty will be.

31. Average monetary income of the poor was US\$290 per person per year, roughly US\$300 below the poverty line (US\$590). Were this gap (US\$300) to be multiplied by the number of poor persons, an estimated US\$1.5 billion would be required each year to eliminate poverty. This figure, the so-called poverty gap, is a yardstick frequently used in comparing the poverty levels of different countries.

32. Like many Latin American countries, Bolivia's income inequality figures are high. During the 1990s, it was found that the 20 percent of the poorest urban population accounted for 4 percent of aggregate urban income, while the 20 percent at the highest income levels

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<sup>6</sup> Figures calculated using the elasticity of growth — poverty estimates (World Bank, 2000).

accounted for 54 percent. To all intents and purposes, this inequality was steady throughout the 1990s.<sup>7</sup>

33. The reduction in inequality (for example, an annual decrease averaging one point on the Gini index<sup>8</sup>) complemented by income growth of 2.5 percent a year could amplify the reduction of poverty by approximately 3 percentage points by the end of the Strategy.<sup>9</sup> This shows that in the absence of growth it is not possible to reduce poverty, but that the more equitable growth is, the greater its impact on poverty reduction.

**Box 2.1**

**Population Living on Less than US\$2 Per Day**

*Studies prepared for purposes of drawing comparisons between different define the poor as persons living on incomes of less than US\$2 per day, and have used this measurement to compare the magnitude of poverty, with adjustments to reflect purchasing power parity.*

*In the case of Bolivia, without applying the purchasing power parity adjustment and using a poverty line set at US\$2 per day, the Headcount Index of poverty is 70 percent of the population (5.6 million poor), and the Headcount Index of extreme poverty is 42 percent (3.3 million). The Headcount Index is lower when the purchasing power parity adjustment is applied.*

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<sup>7</sup> Authorities do not agree fully on the inequality trend in Bolivia throughout the 1990s. For example, ECLAC's figures indicate a reduction in inequality between the beginning and end of the decade, while IDB lists Bolivia in the group of countries that maintained constant inequality levels.

<sup>8</sup> The Gini index is a measurement of inequality, in this case applied to income distribution. The index uses a value of zero (0) when the entire population has the same income level and a one (1) when income is concentrated among a small number of persons, reflecting a high degree of inequality. In urban Bolivia, the Gini index fluctuates around 0.5, with variations of about .03 in either direction.

<sup>9</sup> Projections for the trajectories of the poverty indexes are presented in Annex 9, together with a methodological explanation.



### **C. Poverty Reduction Policies**

34. Economic stabilization was the priority objective of public policies during structural adjustment, and, with few exceptions, involved no social Political Agenda. In the early 1990s, it was found that low human capital levels had constituted the major obstacle to economic growth, which highlighted the concern with and need for placing social and poverty reduction issues on the agenda.

35. Human capital began to gain in importance, and social policies gained standing in the hierarchy of social policies, with an increased focus on education, health care, and basic sanitation services, inasmuch as these, in particular, constitute the starting point for increasing long-term investment in human capital. Programs to protect maternal and child health, and that of the elderly, have been developed, and gender-approach programs initiated.

36. In the mid-1990s, policies were developed in the human development framework, with emphasis on the themes of citizenship and participation which reaffirmed universal human rights, introducing actions promoting cross-cultural relations and ethnic identity. Focus was placed on the close relationship between capacities and market access, access to justice, and the role of institutions, resulting in the decision to pursue a decentralization strategy. Advances were made in the areas of the environment and sustainable development, driving the vision of long-term development.

37. The conceptual advances were not matched by actions ensuring effective results in poverty reduction. The municipalities suffered from institutional weaknesses and limitations in the social control of resources became evident; however, these weaknesses were attributable in large measure to the process which was then still in the initial stages of decentralization.

38. The need to achieve results generated actions to improve institutional structures, incorporate control mechanisms, and established a new relationship framework with international cooperation bodies. Bolivia's participation in HIPC I represented an important experience with the prioritization of actions in the social sector, in particular education, health, and rural development, incorporating monitoring and evaluation systems based on indicators and targets.

**Box 2.2**

**Bolivia and HIPC I**

*Bolivia reached the HIPC I decision point in 1997. In September 1998, the completion point of the initiative was reached when the financial targets, structural reforms, and social reforms established for the second phase of the initiative were achieved. With Japan's contribution, the net present value (NPV) of relief amounted to US\$783 million (approximately US\$1.137 billion in nominal terms) to be implemented over 40 years.*

*Within the framework of the HIPC Initiative, Bolivia undertook policy commitments to be assessed on the basis of indicators which measure progress in terms of improved quality and coverage of health services, education, rural development, and other poverty alleviation policies.*

<i>Meeting of HIPC targets (in percent)</i>			
<i>Sector</i>	<i>97</i>	<i>98</i>	<i>99 (1)</i>
<i>Education</i>	<i>89</i>	<i>89</i>	<i>100</i>
<i>Health</i>	<i>86</i>	<i>86</i>	<i>100</i>
<i>Rural development</i>	<i>100</i>	<i>100</i>	<i>100</i>
<i>Total</i>	<i>89</i>	<i>89</i>	<i>100</i>

*Source: Based on assessment reports, UDAPE.*

*(1) Reflects targets fully and partially met.*

*Of the 19 indicators in question (7 in education, 6 in health, and 6 in rural development and poverty reduction), 17 goals (89 percent) were met in 1997 and 1998. 100 percent compliance was achieved in 1999. The agreed policy tasks were satisfied by 1998.*

**Education**

39. The education reform led to actions aimed at enhancing the coverage and quality of education, particularly at the primary level. It involved greater community participation in education, established a new curricular organization including new educational areas, levels, and methods, and incorporated the cross-cultural concept and bilingual techniques. Establishment of the System for Measuring Quality in Education [*Sistema de Medición de la Calidad Educativa*—SIMECAL] received support, and standards of administrative organization were established for the public school service. The Educational Reform Program (PRE) was also adapted to the new decentralized administrative structure.

40. In connection with the Education Reform Program, supplies of educational materials were provided to institutions in transformation, and efforts to improve the school infrastructure were made. During recent years, special emphasis has been placed on teacher

training in the Advanced Teacher Training Institutes [*Institutos Normales Superiores—INS*] as well as on-the-job training for teachers through pedagogic advisory services.

41. The Education Reform Program is being carried out with the participation of directors and organizations of teachers and parents, through execution of educational projects cofinanced by municipal governments and the Ministry of Education, Culture, and Sports (MECyD).

42. Despite the efforts to advance the Reform, low quality levels are still observed, owing in large measure to the inadequate incentives for teachers, in particular the present remuneration structure established on the basis of the ranking system based solely on seniority. This system does not reward continuing education or provide a stimulus for more effective use of existing teaching staff. As education is not an attractive profession, temporary teachers are quite prevalent.

## **Health**

43. The health situation reflects the conditions of poverty, and is also a key factor in efforts to overcome poverty, in large measure through the impact of individual health on productivity.

44. High mortality and morbidity indices have highlighted the need to launch health system reform. During the 1980s, ad hoc actions were taken to promote health among the poor population, particularly in connection with child immunization programs. At the end of the 1980s, priority in this area focused on mother and child health, laying the groundwork for health system reform.

45. In 1996, National Maternity and Child Insurance [*Seguro Nacional de Maternidad y Niñez—SNMN*] was established, offering a package of services designed to protect mothers and children. The program was executed in connection with the new decentralized scheme with participation of municipal governments. In 1999, the health reform began with the Basic Health Insurance (SBS) which expanded the benefits offered by the SNMN package, ensured its financial sustainability, and improved management.

46. The progress registered by basic health insurance in terms of mother and child health care coverage has been substantial, with increased institutional care for births, cases of acute diarrheal disease, and acute respiratory infections, as well as a complete vaccination cycle for children under one year of age.

47. The health sector's most serious problem is a shortage of human resources, and particularly in relation to health care coverage shortages in rural areas, insufficient assignment of temporary staff, and inadequate training of health staff. Administrative personnel have no interface with medical staff, indicative of inefficient human resource allocation and the low numbers of medical personnel. The high turnover in temporary staff in rural areas for one-year assignments in the provinces provides no guarantee that health staff

will remain in remote areas. Insufficient training of administrative personnel leads to institutional management constraints, limiting the impact of health programs.

### **Housing and basic sanitation**

48. According to the results of the 1992 census, the major housing problem in Bolivia is its low quality. According to this data, the poor quality of construction materials, restricted space, and scarce access to services affect 40 percent of housing units. The qualitative shortfall is even more pronounced in rural areas, where 75 percent of housing units have deficient construction, 63 percent are characterized by overcrowding, and only 1 percent have access to sanitary sewer systems.

49. Beginning in 1998, the State's role in the provision of housing was substantially changed. Traditional housing policies based on state financing through labor and employer contributions had not succeeded in reversing trends in the provision of low-cost housing.

50. The major difficulties in the housing sector take the form of poorly defined property rights, the lack of a reliable real estate registry, the absence of transparency in the recording of the market value of real estate transactions, unskilled human resources, the lack of information systems, and institutional weaknesses in the municipalities.

51. In the area of water and basic sanitation, the Rural Basic Sanitation Program (PROSABAR) was the key instrument in providing water and basic sanitation to rural communities, with assistance from the Social Investment Fund [*Fondo de Inversión Social—FIS*] and municipalities. The level of national drinkable water coverage is now 73 percent.

52. Water and sanitation projects introduced the component of training and participation of beneficiaries, which significantly impacted project sustainability. The mechanisms have yet to be consolidated to cover financing and implementation of these projects to enhance levels of coverage.

### **Comprehensive childcare**

53. Comprehensive care for children was established on the basis of three programs that began during the early 1990s: the comprehensive childcare program (PIDI), comprehensive child development centers (CIDI), and the National Program of Care for Children younger than 6 (PRONAM-6). These programs have now been incorporated into the Program of Care for Boys and Girls Younger than 6 (PAN), which aims to coordinate the supply of initial education, nutrition, health, and protection.<sup>10</sup>

54. Recent studies have shown that children who participated in PAN activities have greater cognitive and psychosocial development than other children in similar socioeconomic

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<sup>10</sup> The PAN is now a part of the Ministry of the President.

circumstances who did not participate in the program. There is no evidence addressing the impact of this program on nutrition levels, although children are being required to spend more time in PAN attention centers.

55. Despite the social benefits of this program, high costs are difficulting its sustainability. If this program is to be sustainable, it will be necessary to enlist the support of the health and education sectors, as well as of the municipal governments.

### **Policies for equity: administrative decentralization and popular participation**

56. The Popular Participation Law acknowledged 311 municipal governments throughout Bolivia, and each year transfers 20 percent of sharable tax revenue to each municipality, commensurate with its population. The municipalities are responsible for managing the supply of public services. The law also established oversight mechanisms through acknowledgement of grassroots territorial organizations (rural communities, indigenous communities, and local boards). The Law on Administrative Decentralization delegated technical and administrative functions to the departmental prefectures with a view to improving public service efficiency and promoting regional development.

57. Popular participation and administrative decentralization contributed to a redistribution of resources to the regions, which had never before received transfers from the State. This process made it possible to raise levels of social investment in most municipalities and promoted participation of civil society in resource allocation through the establishment and acknowledgement of rural and communities and indigenous peoples in local decision-making and in participatory planning mechanisms.

58. Administrative Decentralization and Popular Participation fostered processes of grassroots level community supervision and developed the capacity to demand accountability from government officials with respect to social policies—which in turn led to higher levels of social investment.

59. Despite the progress made in this connection, municipal governments still lack capacity for consolidated public management, and have yet to establish an administrative career stream to strengthen this institutional system. The participatory mechanisms that were established have been insufficient to ensure full participation for both urban and rural municipalities.

60. Notwithstanding the foregoing, decentralization is an important step forward in the modernization of the state by improving efficiency, promoting equity and broader participation. This process has meant that the State's role is basically normative, with the prefectures articulating policy and the municipalities responsible for program execution.

### **Investment and development funds**

61. In 1986, the Emergency Social Fund [*Fondo Social de Emergencia*—FSE] was established to alleviate the effects of stabilization policies. This Fund generated temporary employment and made it possible to create social infrastructures. This experience made it possible to gain headway in the design of social funds to meet the need for collecting and channeling resources to the social infrastructure over a longer-term horizon.

62. Investment funds began to operate in the early 1990s. FIS was responsible for financing infrastructure projects in the areas of education, health, basic sanitation, and institution-building; the Rural Development Fund [*Fondo de Desarrollo Campesino*—FDC] was responsible for supporting small-scale producer activities; and the National Rural Development Fund [*Fondo Nacional de Desarrollo Regional*—FNDR] was responsible for investment in productive infrastructure. Until the mid-1990s, FIS to all intents and purposes defined social investment policy and incorporated a participatory planning approach that was useful in guaranteeing project sustainability.

63. The Funds developed enhanced disbursement capacity, achieved national-scale coverage, acquired technical expertise, and established eligibility criteria with municipal governments. However, operating costs proved to be high, and they executed projects that were not always coordinated with the sectors, and which in some cases were characterized by poor management.

64. The Funds are now in a restructuring phase that will make it possible to improve management efficiency, emphasizing results over procedures, reducing financing periods, cutting administrative costs, and improving institutional performance. This restructuring was derived from the establishment of the Single Funding Directorate [*Directorio Único de Fondos*—DUF] and the merger of FIS and FDC, which is now in progress. The Funds are an essential tool for generating a compensation policy which promotes equitable social investment and advances the decentralization process.

### **Social investment**

65. Investment was redirected to the social area through reduced government participation in production activities. During the 1990s, social investment grew from 10 percent of total public investment to 50 percent at the end of the decade.

66. During recent years, public investment has been less dependent on external financing. In 1990, 50 percent of investment was financed with external grants and loans, while the share of domestic resources increased by approximately 10 percentage points by the end of the 1990s.

Table 2.1  
Sources of Public Investment Financing 1990–1999  
(In percent and as a share of GDP)

Source	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average 90-99
Percent of public investment											
Domestic Resources	45.6	54.2	46.9	41.0	43.1	48.0	44.9	58.9	57.9	55.7	49.6
External Resources	54.4	45.8	53.1	59.0	56.9	52.0	55.1	41.1	42.1	44.3	50.4
Loans	42.2	35.4	43.7	45.3	46.3	42.9	43.6	31.8	30.4	32.8	39.4
Grants	12.3	10.4	9.4	13.7	10.6	9.2	11.5	9.3	11.7	11.5	11.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
As a percentage of GDP											
Domestic Resources	2.95	4.27	4.43	3.42	3.69	3.68	3.53	4.09	3.43	3.55	3.70
External Resources	3.52	3.62	5.01	4.92	4.87	3.99	4.32	2.85	2.50	2.83	3.84
Loans	2.73	2.79	4.13	3.77	3.96	3.29	3.42	2.20	1.80	2.09	3.02
Grants	0.79	0.82	0.88	1.14	0.91	0.70	0.90	0.65	0.69	0.73	0.82
<b>Total</b>	<b>6.47</b>	<b>7.89</b>	<b>9.44</b>	<b>8.33</b>	<b>8.56</b>	<b>7.67</b>	<b>7.85</b>	<b>6.94</b>	<b>5.93</b>	<b>6.38</b>	<b>7.55</b>

Source: Based on information from the Public Investment System (SISIN)– Office of the Vice-Ministry of Public Investment and External Financing (VIPFE).

67. Decentralization of public management made it possible to increase the participation of local governments in public investment execution. In fact, until 1994, the municipalities had been responsible for approximately 8 percent of public investment, while this proportion grew to 21 percent by 1999.

Table 2.2  
Public Investment Execution, 1994–1999

Level of Execution	1994	1995	1996	1997	1998	1999
(In millions of U.S. dollars)						
Total	513.3	519.7	588.6	548.3	504.7	530.6
National	384.9	348.2	323.7	274.1	176.6	202.2
Departmental	88.3	93.6	164.8	172.7	227.1	215.4
Municipal	40.0	77.9	100.0	101.4	100.9	113.0
(Percentage structure)						
Total	100	100	100	100	100	100
National	75.0	67.0	55.0	50.0	35.0	38.1
Departmental	17.2	18.0	28.0	31.5	45.0	40.6
Municipal	7.8	15.0	17.0	18.5	20.0	21.3

Source: Prepared based on information from VIPFE and the Office of the Vice-Minister of Strategic Planning and Popular Participation (VPEPP)

N.B.: National figures include execution of national projects (Ministries); departmental figures include execution of projects of departmental prefectures and regional financing of investment funds; and municipal figures include municipal government execution.

68. Accordingly, more than 60 percent of public investment execution is the responsibility of municipal governments and regional authorities—thereby contributing to more effective allocation of public resources, and matching these activities with demand through enhanced participation of civil society in program planning and execution.

### **Social expenditure**

69. The changing role of government prompted by the structural reforms has resulted in the reorientation of public resources to the social area, for investment as well as current expenditure. Increasing trends in resources for social expenditure have been registered in recent years, and the share of current expenditure earmarked for the social sectors rose from 12.3 percent of GDP in 1995 to 16.5 percent of GDP in 1999.<sup>11</sup>

70. During the past five years, almost 40 percent of social expenditure has been earmarked for the education sector, particularly to cover outlays for teacher salaries; 22 percent was earmarked to cover health services; 11 percent to basic sanitation and urbanization; 6 percent to rural development; and the rest to cover the pension system.

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<sup>11</sup> Since 1997, the Government has borne the cost of pension reform, which represents approximately 3.5 percent of GDP, to cover payment of pensions corresponding to the former distribution system.



71. Despite the increase observed in recent years, the level of social expenditure is low for the region. In fact, Bolivia's social expenditure amounts to 35 percent of public expenditure—which is below the average for Latin America (41 percent of public expenditure).

72. As the increase in priority social expenditure resources—particularly for primary education and health—is limited by budget constraints, the cost of system reform must be addressed with future revenue. In addition, the tax revenue increase was insufficient to increase funding earmarked for the social area.

### III. THE POOR IN BOLIVIA

#### A. Magnitude of Poverty

73. In 1992, 70 percent of the population had unsatisfied basic needs (UBNs) and 37 percent were in a situation of extreme poverty.<sup>12</sup> In urban areas, 53 percent of the population had unsatisfied basic needs and 13 percent were in extreme poverty. By contrast, in rural areas, 95 percent had UBNs and the Headcount Index of extreme poverty Headcount Index was 69 percent.

74. Extreme poverty levels are higher in rural municipalities of the high plateau [*altiplano*], particularly in the regions of Northern Potosí, Chuquisaca, and La Paz.<sup>13</sup> Many indigenous peoples and communities live in these regions, which are scattered, difficult to access, and poorly integrated with population centers; access to basic services is limited, production infrastructure is insufficient, and agricultural yields are low. 31 percent of the poor population in rural areas live on the high plateau; 47 percent in the valleys (including Chapare); and the remaining 22 percent live in the lowlands of Eastern Bolivia and Chaco. Poverty is most intense, however, on the central high plateau.

75. Poverty levels are somewhat lower in the municipalities of Bolivia's Eastern, Chaco, and Southern regions, although this is attributable to the presence of rural ranches devoted to livestock farming, which in some cases have developed income-earning possibilities by broadening their grazing areas. However, the lowlands in the east are occupied by ethnic groups and original indigenous peoples, such as the Guaraní people, the Chiquitanos, the Moxeños, and others dispersed all across Amazonia and Chaco. These populations are poorly

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<sup>12</sup> Defined based on the intensity of deficiencies in the household. The presence of more deficiencies and/or a great distance from the minimum standards of living placed these households in extreme poverty situations.

<sup>13</sup> Annex 2 provides a reference map on the degree of poverty in the municipalities.

integrated with the rest of Bolivia, and there is a dearth of mechanisms which might enable these various communities to play a more prominent role; moreover, there are linguistic barriers and obstacles to ethnic representation in the political system which have impeded the recognition of citizenship and the exercise of rights.

76. Comparatively lower levels of poverty are generally found in the more populated municipalities. It has been observed that, despite the fact that poverty indexes are lower in the main cities, more than half the poor live there. Geographical features, and differing natural resource endowment levels, and road infrastructure investments account for the differing poverty levels in the municipalities.

Table 3.1  
Poverty and Extreme Poverty Using the Unsatisfied basic needs Approach  
By Area, 1976–1992  
(In percent)

Area		1976	1992	Average annual change (in percent) (1)
<i>National</i>				
Poverty	Headcount Index	85	70	-1.2
	Extreme poverty	--	37	
<i>Urban areas</i>				
Poverty	Headcount Index	66	53	-1.4
	Extreme poverty	--	13	
<i>Rural areas</i>				
Poverty	Headcount Index	98	95	-0.2
	Extreme poverty	--	69	

(1) Exponential growth rate.

Source: Poverty Map, 1993.

77. In rural municipalities, the infant mortality rate (for which the average is 67 per thousand live births) was estimated at 110 per thousand. Total chronic malnutrition (size-age) in children under three years of age is 26 percent for all of Bolivia, while it amounts to 48 percent in poor rural municipalities.

78. During the inter-census period (1976-1992), the percentage of the population with UBNs declined at a rate of -1.2 percent per annum, from 85 percent to 70 percent. Changes in the UBN index were more rapid in urban areas (-1.4 percent per year) than in rural areas (-0.2 percent). This situation is explained by higher levels of investment in social infrastructure in major population centers. In fact, about 40 percent of the reduction in poverty is attributable to the growth of cities owing to urban migration.

79. The departments of Potosí, Beni, and Chuquisaca reduced their UBN indexes more slowly than other departments (-0.9 percent per year) while, in contrast, the UBN indexes in the departments of Santa Cruz and Tarija fell by -1.2 percent per annum.

Table 3.2  
Poverty According to the Unsatisfied basic needs Approach  
By Department, 1976 and 1992

	1976	1992	Average Annual Change (Percent)
National total	85	70	-1,2
Chuquisaca	89	77	-0.9
La Paz	83	71	-1.0
Cochabamba	86	71	-1.2
Oruro	85	70	-1.2
Potosí	93	80	-0.9
Tarija	86	66	-1.6
Santa Cruz	79	58	-1.9
Beni	90	77	-0.9
Pando	95	81	-1.0

Source: Ministry of Human Development (MDH) 1993.

80. The poverty line approach defines the poor population as individuals or households whose income (or consumption expenditure) is below the cost of a basic basket of goods and services. The poverty levels analyzed below were estimated using this method.

81. In 1999, 63 percent of the population (approximately 5.1 million persons) had income (or household expenditure) below the poverty lines, and 37 percent had incomes below the cost of only a basic food basket (extreme poverty). In rural areas, more than 80 percent of the population lived in poverty conditions, and approximately 60 percent lived in extreme poverty.<sup>14</sup>

<sup>14</sup> Poverty lines were calculated on the basis of the construction of the basic food baskets and the estimation of nonfood needs valued at the prices prevailing in each area. The cost of the basket in rural areas is US\$23 per person per month; the cost in urban areas depends on the city, with an average cost of US\$29 per person per month. For urban areas, per capita household income was used to identify poverty, while in rural areas per capita household expenditure was used for that purpose.

82. Although rural poverty levels are higher than in urban areas, 52 percent of the poor live in urban areas—a reflection of the effects of the rapid urbanization process that has characterized the past two decades.

Table 3.3  
Population and Headcount Index of Poverty and Extreme Poverty  
By Area of Residence, 1999  
Poverty Line Method

Area	Poverty Headcount Index (percent)	Percentage in Extreme Poverty
National	62.7	36.8
Cities	47.0	21.6
Other urban	65.8	30.9
Rural	81.7	58.8

N.B.: The poverty Headcount Index assesses the percentage of the population whose income is below the poverty line. Extreme poverty is the percentage of the population whose income is below the cost of a basic food basket.

Source: World Bank- INE-UDAPE.

83. There is evidence to the effect that, in the major cities, there is no significant difference in per capita household incomes between migrants and nonmigrants.<sup>15</sup> The linkage that has developed between urban and rural areas has shown that migration is a way of diversifying activities which in turn helps to manage risk and reduce poverty.

84. Urban poverty is closely related to labor market participation, and in particular, to low-quality jobs and limited opportunities for gaining access to income sources. Rural poverty is heavily attributable to the determinants of agricultural and stockbreeding productivity, the absence of production infrastructure, and scant access to markets for agricultural goods.

85. Poor households, particularly those residing in rural areas, frequently face high risks of disease as the result of unstable living conditions and the scarcity of health services, water, and basic sanitation. In fact, 78 percent of the poor rural households do not have access to drinkable water and 72 percent lack basic sanitation service. Various regions are exposed to endemic diseases such as Chagas disease, malaria, and tuberculosis—typically sources of high mortality and malnutrition rates in children, compromising the potential for future labor productivity.

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<sup>15</sup> World Bank, 2000a.

## B. Urban Poverty

86. The 1980s witnessed the emergence of a rapid process of urbanization and concentration of the population around the central corridor.<sup>16</sup> Between the 1976 and 1992 censuses, the population in urban areas grew by 4 percent per annum, and population projections indicate an urban population growth rate of 3.6 percent per annum at the end of the 1990s. Urban growth is attributable primarily to rural-urban migration observed throughout recent decades, and also contributed to the establishment of poverty belts in urban centers.

87. Two trends can be observed in urban poverty since the mid-1980s: between 1986 and 1989, we note an increase in the poverty Headcount Index by approximately seven percentage points (from 52 percent to 59 percent); during the 1990s the Headcount Index declined to levels comparable to those observed during the mid-1980s.

Table 3.4  
Headcount Index of Poverty and Extreme Poverty  
In Major Cities, 1986–1997

	Poverty Headcount Index (Percent)	Population in Extreme Poverty (Percent)
1986 <sup>a/</sup>	52	22
1989 <sup>a/</sup>	54	23
1989 <sup>b/</sup>	59	30
1990 <sup>b/</sup>	58	29
1993 <sup>b/</sup>	52	24
1997 <sup>c/</sup>	51	21

N.B.: Estimated using the poverty line approach. The figures are not fully comparable with the results provided in Table 3.3, as recent surveys have incorporated greater detail into household income.

Sources: (a) World Bank; (b) Social Policy Analysis Unit (UDAPSO) and UDAPE; (c) World Bank, INE, and UDAPE.

88. The increased Headcount Index of urban poverty during the first few years of structural adjustment was related to the economic slowdown and deterioration in employment conditions that prevailed during that period. In 1986, GDP fell by -2.6 percent; while open unemployment amounted to approximately 10 percent and income levels were at their lowest level since the 1970s.

<sup>16</sup> The central corridor includes the departments of La Paz, Cochabamba, and Santa Cruz.

89. During the 1990s (using data that are not fully comparable),<sup>17</sup> urban poverty decreased from 58 percent in 1990 to 51 percent in 1997. This trend was associated with the economic growth observed during that period, which provided greater employment opportunities and a diversification of household income sources, resulting in higher levels of household income. However, this process was also accompanied by growth in the number of poor in outlying areas, and primarily in the cities of La Paz, El Alto, and Cochabamba, which received migratory flows from rural areas and other urban centers.

90. The differences in urban poverty levels are associated with certain socioeconomic characteristics of households and individuals. Poverty levels are significantly higher (56 percent) in households headed by young persons—under 25 years of age—than in those headed by older persons. This factor reflects the fact that households accumulate more assets during the life cycle, and that older households generally have a lighter burden of family responsibility.

91. It is estimated that, in 1999, 58 percent of the urban population that spoke native languages were in a state of poverty, and just under 30 percent were in extreme poverty, in contrast with 46 percent of persons who spoke only Spanish (poverty) and 18 percent (extreme poverty). The same data established that per capita household income was 13 percent lower when persons spoke Quechua, and 32 lower when Aymara was spoken. The differences in living standards between indigenous and nonindigenous groups in the cities reveals the presence of a high degree of discrimination and probably segregation as well, manifested in particular by the differing educational opportunities of the urban indigenous population and by access to social services and the labor market.

92. In 1999, approximately 60 percent of the urban population with five years of formal education or less were poor and 28 percent were extremely poor. A more educated head of household reduces the probability of being in a situation of poverty. In fact, a head of household with a primary education could increase the household income by 25 percent over households headed by persons with no education. Similarly, household income may increase a further 40 percent when the head of household has a secondary education.

93. Throughout the 1990s, we observe some improvements in education indicators—the illiteracy rate declined from 20 percent in 1992 to 15 percent in 1999; the adult population having eight or more years of education increased from 38 percent to approximately 50 percent; and gross enrollment in primary school maintained reasonable growth rates to the point of approximately 100 percent coverage. However, in 1999, we still observed dropout and repeater rates similar to those registered during the early 1990s.

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<sup>17</sup> The household surveys used to produce this information had a separate sample design, and in many cases the questions on income were not totally standardized.

Table 3.5  
Bolivia: Education Indicators

	1992	1999
<i>Illiteracy rate</i>	20.0	14.8
Urban	8.9	5.3
Rural	36.5	33.7
<i>Adult population having completed primary education</i>	38.0	50.7
Urban	54.5	67.5
Rural	13.3	17.4

Source: National Population and Housing Census (CNPV 92) and Improvement in Living Conditions Survey (MECOVI 99)

94. Urban poverty is closely correlated to labor force participation, the human capital of workers, and the accumulation of physical assets. On average, 85 percent of urban household income was derived from labor activities—wage earning as well as independent occupations, and a residual percentage stems from income from other assets and transfers.

95. Between 1989 and 1997, economic performance brought changes in the labor market—primarily increased participation rates for the more skilled population; a decline in open unemployment rates from approximately 10 percent in 1989 to 4.4 percent in 1997 (although they increased once again in 1999 to 8 percent). Visible underemployment (employed persons working less than 20 hours per week) remained at relatively stable levels (approximately 12 percent). Despite the underemployment, higher employment rates contributed to the reduction of urban poverty, reflecting greater access to income sources.

Table 3.6  
Bolivia: Labor Indicators

	1989 (1)	1993 (2)	1997 (3)	1999 (4)
Gross labor force (TBP)	39.4	39.2	40.6	44.4
Global labor force (TGP)	52.8	52.6	52.5	56.7
Open unemployment rate (TDA)	10.4	6.0	4.4	8.0
Layoff rates (TC)	6.8	3.9	3.2	5.2

Sources: Household Surveys, National Statistics Institute (INE);

(1) First round, integrated household surveys [*Primera Ronda Encuesta Integrada de Hogares*], March 1989;

(2) Sixth round, integrated household surveys, June-November 1993;

(3) Third national employment survey, November 1997;

(4) Improvement in Living Conditions Survey, MECOVI, November 1999.

96. Expansion in urban employment was manifested primarily in manufacturing, construction, and trade—largely in small-scale or semi-entrepreneurial establishments.<sup>18</sup>

<sup>18</sup> The semi-entrepreneurial sector is composed of establishments with less than five workers.

The share of such businesses increased from 10 percent to 15 percent between 1989 and 1997, while the enterprise sector grew at a substantially lower rate, increasing from 25 percent to 28 percent during the same period and declining again to 26 percent in 1999.

97. Between 1989 and 1999, the participation of the household sector increased from 33 percent to 42 percent, making this one of the most significant forms of labor participation in urban employment, combined with the semi-entrepreneurial sector which increased its weight from 10 percent to 15 percent over the same period. Both sectors are made up of numerous micro and small enterprises (MSE's), whose growth has led to the emergenc of low-productivity activities in a framework within which employment is precarious and adequate safeguards are lacking.

Table 3.7  
Bolivia: Urban Employment by Sector

	1989	1997
Total	100	100
Employment in the public sector	24	11
Employment in the enterprise sector	25	28
Employment in the semi-entrepreneurial sector	10	15
SelfEmployment	33	42
Domestic service	8	4

Source: INE - UDAPE

98. Between 1985 and 1997, an average of 7 out of 10 jobs were created by MSE's. In general, the educational level of workers in MSE's are lower, and many learn jobs informally and unsystematically from their own parents; technical skills in production, trade, or other activity are reinforced through on-the-job experience.

99. The MSE's are highly heterogeneous in terms of the form of business organization, production methods, market insertion practices, and quality control.

100. Labor income in urban areas increased at differing rates depending upon the employment sector in question. The greatest increases were observed in the semi-entrepreneurial sector, which registered income increases exceeding 5 percent per annum, by contrast with real income in the household sector (self-employed persons) where growth was virtually stagnant.

101. The increase in participation of the household sector in employment, associated with the slight increase in income and low level of skilled labor (only 9 percent of the workers in this sector have completed middle education) indicates a significant problem of employment quality, which limits the opportunities for urban households to break out of the poverty cycle.



102. Between 1999 and 2000, the reduction in economic growth was derived from the increase in unemployment and probably affected household income for families located within poverty levels as the result of the reduction in real wages and labor income. This experience indicates how vulnerable incomes are to changes in economic activity.

103. The urban labor market is characterized by severe segmentation and fragmentation, the weakness of the industrial sector, polarization between a modern sector oriented toward services (financial services and other services to business) and a sizable semi-entrepreneurial sector based on trade and the absorption of household labor, which militates against the consolidation of a competitive market, provides no incentive for the training of human capital, and fails to stimulate the production of quality items. In consequence, the incomes of urban workers are frequently below the poverty line.

### **C. Rural Poverty**

104. Population projections estimate that 38 percent of the total population lives in rural communities and areas<sup>19</sup> which coexist in a broad cultural and ethnic diversity. Since 1992, the rural population has changed very little, reflecting an intensive urban migration process. Rural areas have also stagnated in economic and social terms, and living standards well below the national average have persisted for a number of years.

105. Migration to the cities has reduced the available labor force in rural areas, where currently the population under 14 years of age represents 44 percent of the rural total, while 50 percent of the population is between the ages of 15 and 64. This tends to limit the possibilities of generating economic progress in that it reduces the labor force needed to adequately make use of the available natural resources.

106. In 1999, monetary income of rural households was less than US\$280 per person per year. A significant share of rural household income is derived from the sale of agricultural products,<sup>20</sup> and another substantial share is accounted for by the value of home consumption, remunerated work, and, last, transfer income from the State, nongovernmental agencies, and other households. Many indigenous people, especially in the lowlands, are at a subsistence level, dependent on the few basic commodities which provide their basic diet and which are obtained largely through hunting, fishing, and gathering activities. Production and

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<sup>19</sup> In Bolivia, the rural population is defined as the population living in localities with populations of under 2,000.

<sup>20</sup> Some studies (IDB, 2000) have indicated that more than 85 percent of rural household income is generated by agricultural production, although this level is probably underestimated owing to the seasonal nature of remunerated activities of the rural population. However, more than 80 percent of the population is engaged in farming, ranching, and in some cases, hunting and fishing.

consumption are virtually equal, and operations are almost exclusively dependent on the amount of natural resources.

107. Agricultural income is largely dependent on production conditions and the market value of the products. In general, Bolivia has a severe problem of low yields and productivity. The figures in question are significantly lower than in other countries in the region. Low yields are explained primarily by the insufficient production infrastructure, low-quality seeds and inputs, limited investment, and low productivity levels associated with an unskilled labor force. There has been no substantial increase in the yield indices for principal agricultural commodities in recent years.

108. There are approximately 660,000 agricultural units, 87 percent of which are small agricultural units supporting 2.7 million persons. These units occupy 14 percent of the arable land area, which is indicative of the magnitude of smallholdings and the problem of land distribution. Thirty-seven percent of the small farmers are situated on the high plateau and occupy 6 percent of the arable land area; 46 percent are located in the valleys and occupy 17 percent of the area; and last, 17 percent are situated in the lowlands, occupying 77 percent of the arable land.<sup>21</sup>

109. By contrast, insufficiently defined ownership rights to land and natural resources have been a source of uncertainty and inefficient land use. According to information provided by the National Agrarian Reform Institute (*Instituto Nacional de la Reforma Agraria -INRA*), in 1999, approximately 11.8 million hectares were covered by the official land register and ownership regularization.<sup>22</sup> Inadequate use of natural resources has also led to overuse of some land by major producers using advanced technology and complex chemicals.

110. The water shortage has restricted productivity gains and expansion in the scale of production, and has made producers more vulnerable. Forty percent of Bolivia's land area registers a water shortage lasting for over six months each year.<sup>23</sup> The high plateau is most severely affected, with water deficits amounting to at least nine months per year. Only 10 percent of the total cultivated land area (2.2 million hectares) is currently covered with irrigation systems. According to the national inventory of irrigation systems for 2000, there are 4,724 irrigation systems in operation, 76 percent of which are concentrated in the departments of Cochabamba, La Paz, and Tarija.

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<sup>21</sup> On the high plateau and in the valleys, small producers are defined as those having 3.5 hectares, while in Eastern Bolivia, small farmers are defined as those having less than 50 hectares.

<sup>22</sup> Land ownership reform that includes public statement of reasons or notification of beneficiaries.

<sup>23</sup> *Informe Principal-National Irrigation Program (PRONAR)*, 1997.

111. While the existence of significant water resources has been indicated in river basis, lakes, and lagoons, only an estimated 1 percent of the potential provided by these resources has been tapped.<sup>24</sup> Accordingly, most of the water deficit is attributable to the lack of physical infrastructure for the appropriate harnessing and use of this resource.

112. The insufficient road infrastructure is a significant obstacle to marketing and makes production by small producers difficult owing to high transport costs. At the same time, it leads to the establishment of networks of agricultural marketing intermediaries known in Bolivia as *rescatistas*. Similarly, access to public social and financial services is also difficult.

113. Intermediaries collect trading margins owing to the presence of asymmetrical information, which generates imperfect market signals in respect of prices and quantities demanded. This situation distorts incentives and reduces the efficiency with which the markets for agricultural products operate.

114. Small-scale agricultural producers also face high levels of risk in production and marketing. A significant proportion of producers are vulnerable to flooding and droughts that affect income flows. Rural households earmark part of their production to home consumption to provide for these eventualities.

115. The nonagricultural income of rural households generally comes from artisanal manufacturing, in some cases transportation, commerce, and other services. Some of these supplementary activities are carried out in cities to which some household members migrate temporarily. Rural households have developed intensive economic interactions between rural areas and the cities, and frequently trade their products through the establishment of social networks, which have strengthened the ties between these communities and the city.

116. Rural poverty is attributable to economic development patterns that have excluded widely-dispersed groups. The small farming economy characterizing most rural areas has weak links with modernization, technological change, and profit distribution. The scant economic infrastructure is an obstacle to rapid change on the part of dispersed populations and makes larger scale investment unprofitable.

#### **D. Social Unsatisfaction**

117. The accumulation of social demands, poverty, and the adverse effects of reduced growth on income distribution led to the social conflicts of 2000.

118. Domestic factors, such as the fight against narcotics trafficking and clampdown on smuggling, also affect the population's income sources and are a source of conflicts.

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<sup>24</sup> *Mercados e Instituciones de Aguas en Bolivia*, UDAPE: 1998.

119. These conflicts express the dissatisfaction of the poor population, particularly in rural areas, who demand more equity and access to opportunities to break the poverty cycle. This need is reflected in the fact that there are insufficient alternatives to coca leaf production, not to mention the insecurity in regard to land ownership, and insufficient infrastructure in terms of roads, education, health, and drinkable water.

120. To address this situation, changes are required in the current legal framework and poverty reduction programs must be accelerated. This is true for changes in the Law on the National Agrarian Reform Institute [*Instituto Nacional de la Reforma Agraria*—INRA] demanded by rural people of the high plateau, revision of the Law on the Environment, postponement of approval of the Law on Water, improved construction of roads, and the provision of health and education infrastructure.

#### **IV. THE DIALOGUE'S CONTRIBUTION TO BOLIVIA'S POVERTY REDUCTION STRATEGY<sup>25</sup>**

##### **A. The Dialogue Process**

121. The formulation of public policies involving the participation of civil society can be traced primarily to Dialogue I, which underscored the need to consider poverty as a central issue. National Dialogue 2000 is a continuation of this process designed to ensure broad participation of society in designing public policy, and particularly poverty reduction-oriented policies. It also contributed to development of participatory democracy while strengthening civil society and the policy system through an enhanced relationship between these parties.

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<sup>25</sup> Concurrently with Bolivia's poverty reduction strategy paper, a reference document has been prepared which elaborates on the process, actions, and results of the three Agendas of Dialogue 2000.

**Box 4.1**

**Origin of National Dialogue 2000**

*Dialogue 2000 was structured, in principle, on the basis of a Social Agenda, with a view to a participatory process of defining the mechanisms for allocation and social control of debt forgiveness resources under the HIPC Initiative. As the result of changes occurring in society's expectations, the design of the Dialogue, which originally included only social issues and was constructed from the municipal level, was broadened to include an Economic Agenda and Political Agenda.*

*Execution of National Dialogue 2000 required the completion of other participatory processes, the proposals of which would later serve as inputs for discussions and coordination of results. These include Jubilee 2000, the Comité Nacional de Enlace de Productores (producer liaison committee), the Dialogue of the Council of Native Eastern Peoples [Diálogo del Consejo de Pueblos Originarios del Oriente], meetings of private development institutions, the Confederation of Community Youth, consultation with rural women of La Paz, and the National Council of Ayllus and Markas del Qullasuyu.*

*The systematizing of the results from these processes was used to identify and prioritize demands and formulate proposals to reduce poverty, with some special features. As a result of these efforts, it was decided to address different topics grouped into the following sectors at the dialogue workshops: production support, education, health, basic sanitation—housing, land—territory, and criteria for the transfer of resources.*

122. The Dialogue 2000 process was composed of three agendas: Social, Economic, and Political. Under the Social Agenda, municipal workshops were organized at the local and territorial levels; and departmental workshops were organized at regional and functional levels. The Economic Development Agenda included two working groups: Sectoral Workshops and Production Lines. The Political Agenda was organized in the form of departmental and national workshops.

123. The Social Agenda involved identification of priority actions to reduce poverty in the areas of road infrastructure, production support, education, health, basic sanitation, and land. Problems impeding poverty reduction were identified, and the mechanisms and criteria for allocation of resources, factors related to regional development, grassroots participation, and the institutional policy framework required to fight poverty were also identified.

124. The Economic Agenda considered problems and solutions in the productive area, such as productivity, competitiveness, and capacity of the productive apparatus to generate employment. Four areas of action were identified: technological innovation, State reform,

promotion of private sector participation, productive use of HIPC II resources, and dialogue as a policy coordination mechanism.

125. The Political Agenda is an input to be used to define the institutional framework to fight poverty. This process brought together the various sectors of civil society, the policy system, and representatives of the State at the local, departmental, and national levels, in an effort to discuss issues pertaining to democracy, transparency, and citizenship. This consultation addressed matters involving deepening of democracy, broadening the scope for participation and exercise of full citizenship. The need to introduce institutional reforms in support of the fight against corruption was also discussed.

126. The Economic and Social Agendas were inputs for the National Dialogue Workshop, contributing to the results obtained in each process, including those organized by civil society. In connection with the Political Agenda, the Political Summit, which aims to discuss demands established in the departmental and national workshops, is pending.

## **B. Issues Discussed**

127. The proposals, suggestions, and requests made throughout the National Dialogue 2000 process made it possible to gain an understanding of poverty from the perspective of civil society. During this process, it was demonstrated that the poor population identifies its problems and takes its decisions in a context of high uncertainty and risk, and these findings constitute an input in the design of more effective action against poverty.

### **Poorest population sectors**

128. In the National Dialogue, 95 percent of the municipalities stated that the rural and native communities are the country's most impoverished groups. These findings are related to the number of municipalities in Bolivia that are predominantly rural.<sup>26</sup> Empirical evidence shows that a significant share of the poor live in urban areas (52 percent in 1999), while in rural areas, 81 percent of the population lives on incomes below the poverty lines.

129. Municipal representatives also identified abandoned children, female heads of household, the elderly, and the disabled as the groups most affected by poverty. Some departmental representatives pointed out the poverty situation among the unemployed and the population of marginal urban districts, stating that urban poverty is also found in departments situated outside the central corridor, such as Oruro, Tarija, and Pando.

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<sup>26</sup> Municipalities having populations of less than 15,000.

### **Limited access to markets, employment, and income**

130. An examination of the results of the Dialogue suggests that the determinants of poverty may be approached both from the standpoint of the citizenry in general, in particular of the poor, and from the perspective of small, medium-scale, and large producers.

131. Access to competitive markets has been indicated as a priority in both groups. However, the problems identified by the poor highlight market imperfections that impede the creation of productive opportunities, and, in some cases, reinforce economic marginalization.

132. The results of the Social Agenda make it possible to associate problems of poverty with the inability to generate income, which in turn are manifested by inadequate participation (or lack of participation) into the labor, financial, and agricultural product markets.

133. In the labor market, problems were expressed in terms of high unemployment rates, insufficient job opportunities, and low wages. Unemployment and insufficient productive employment opportunities are attributable to the economy's low productive capacity. From the standpoint of the poor, however, the problems of poverty are exacerbated in particular as the result of insufficient stable opportunities for wage-earning and self-employed jobs, which in turn reflects the labor market's incapacity to absorb the increasing supply of labor, which affects women above all.

134. Where the financial market is concerned, the increased restriction identified by the Dialogue was the lack of access to credit and microcredit opportunities. Factors that restrict access are related to insufficient credit supply (primarily for small farmers) and high interest rates applied by current credit programs (particularly the micro-enterprise sector).

135. In the markets for agricultural products, the sector representing them observed that unfair competition is generated by smuggled, donated food and imports of some products for social programs. By contrast, it was pointed out that agricultural marketing is conducted through intermediaries, which distorts market incentives, restricting the participation of small producers in competitive markets.

136. The problems identified in these three markets are associated with the operational imperfections of these markets. How the poor perceive these imperfections is reflected in the identification of high transaction costs (expressed as "insufficient knowledge to make projections about development and industrialization" and "insufficient knowledge of consumer markets"); bottlenecks ("restricted domestic market"); and the absence of safeguards against risks and uncertainty ("production is insecure as the result of natural phenomena").

137. The results of the Dialogue also questioned the role of the State in provision of public goods and productive assets. In this connection, strategic actions were proposed to reduce poverty, such as the need to build and maintain roads, irrigation and micro-irrigation systems, and technical assistance for production activities.

138. Medium and large-scale producers indicated that national policy should aim at promoting economic growth by achieving reductions in transaction costs, promoting horizontal and vertical coordination of production processes, and facilitating access to markets.

139. As expressed in connection with the Dialogue, transaction costs are quite high, which leads to production disincentives and bids up prices of final products, leading to delays and loss of competitiveness. Insufficient information on quality standards, prices, and trends in national and international markets were also identified.

140. The importance of investing in infrastructure to facilitate national integration and improve opening to external markets was also mentioned. The need for technological innovation was also identified as a prerequisite for boosting the competitiveness of the existing production apparatus.

### **Rural poverty**

141. The problems of rural areas, as expressed in the various instances of the National Dialogue, suggest that poverty in this region of Bolivia is the result of: (i) insufficient production infrastructure; (ii) low productivity levels; and (iii) imperfections in the market for agricultural products.

142. Seventy percent of the participants in the Dialogue mentioned the deficiencies in regard to roads and irrigation systems. To overcome this problem, participants stressed the need for a bigger and better road infrastructure (basic system and local roads), irrigation and micro-irrigation systems, as well as for maintenance programs.

143. Emphasis was placed on the need for more capital, technology, and infrastructure for irrigation, as well as the importance of adequate land management. The constraints in these areas may be associated with deterioration of productivity and extreme poverty.

144. The main restrictions of the agricultural sector were linked to imperfections in the markets for products, associated with: (i) asymmetrical information between producers and marketers; (ii) monopolies and oligopolies in the marketing process; and (iii) insufficient definition of ownership rights to land and natural resources.

### **Insufficient provision of public goods and social services**

145. The Dialogue pointed out the need to strengthen human capital to improve the capacities of the poor to take advantage of economic growth opportunities, particularly related to education, health, and basic sanitation services.

146. The need to reduce illiteracy and increase the quality of educational services was discussed. Similarly, the importance of implementing alternative educational systems and/or technical systems meeting specific qualification requirements for production (training for agriculture, manufacturing, and other productive sectors) was established. In the area of



formal education, construction, infrastructure maintenance, and equipment endowments for schools, an increase in temporary staff, and improved wage levels for teachers were requested.

147. Civil society stated the need for higher levels of investment in infrastructure, equipment, temporary staff (doctors and nurses), and human resource training in health. Demands in this area include: the broadening, consolidation, and improvement of SBS and Old Age Insurance (Seguro de Vejez); the transfer of human resources to municipalities and greater cash and noncash incentives for health personnel to serve the poor population; the development of health programs combined with traditional and alternative medicine; expansion of Bolivia's "Epidemiological Shield" program; and solutions to institutional problems that impose constraints on the existing health care system.

148. The population identified basic services and the quality of housing as factors affecting the state of personal health. Civil society focused their demands on construction of drinkable water and sewerage and sanitation systems (treatment plants), the provision of latrines, solid waste management, and the improvement, construction, and fumigation of housing units.

### **High levels of risk and vulnerability**

149. In the National Dialogue, vulnerability was further defined as a problem associated with water shortages, natural disasters, lack of legalization and regularization of land tenure patterns, and unemployment. Failure to protect the environment, and topics related to smuggling were also mentioned as problems.

150. Among the actions mentioned to reduce levels of risk and vulnerability are: dissemination and training on the scope of the INRA Law and the Law on the Environment; political independence and institutional reform of the INRA; development of a process of legal regularization of land ownership and title holding in rural areas; protection of land through defense mechanisms and forestation with technical and financial assistance; and environmental conservation through integrated, sustainable natural resource management.

151. By contrast, children under six years of age were identified as the most vulnerable group among the poor. To that end, it was suggested to expand, strengthen, and improve programs for comprehensive care of minors as a safety net. Elderly persons and women facing domestic violence were cited among other vulnerable groups.

### **Exclusion and marginalization of impoverished groups**

152. Social exclusion was indicated in the National Dialogue as a problem related with gender and ethnic discrimination, with limitations on the exercise of citizens' rights,

insufficient participation in community decisions,<sup>27</sup> and the decreasing value of social solidarity links that still exist in the communities.

153. Problems attributable to the centralizing tendency of State institutions which prevents an adequate focus on local demands, creating barriers denying certain population groups their fair share of public resources, and causing not only unequal opportunities and capacities, but also unequal political representation, were mentioned.

154. It was stated that election of local governments is a prerequisite (although not sufficient in and of itself) for the attainment of popular participation. The proposals of National Dialogue 2000 included the need for enhanced communication and renewal of the democratic regime, with expanded and improved party representation systems. To that end, there were calls for a change in the electoral political system, which in some cases could require reforms of the Constitution (Constitución Política del Estado - CPE) and Electoral Law.

155. Civil society stated its opinion on the importance of direct election of departmental and local authorities and council members. It mentioned the need to choose members of National and Departmental Electoral Boards by three fourths of the votes of the National Congress, election of the President and Vice President of the Republic in a second round, and uninominal election of deputies and municipal councillors. These topics were incorporated into the agenda of the Policy Summit for analysis.

156. The National Dialogue also mentioned insufficient grassroots participation in preparation of municipal developmental plans (PDMs) and departmental development plans (PDDs). The poor perceive that their voices are not heard and that the institutions are ineffective in providing public services.

### **Corruption, central focus, and bureaucracy**

157. In the framework of Dialogue 2000, civil society identified policy and institutional problems affecting public management, and particularly corruption, bureaucracy, and the overly centralizing tendencies exhibited by the State. Solving these problems as a prerequisite for overcoming poverty was one of the central grassroots concerns in the Social Agenda and the Political Agenda.

158. In the Social Agenda, representatives of civil society stated that corruption is one of the most worrying failures of the administration and public management, and is linked to the diminished efficiency of the State in providing services and solving social problems. This

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<sup>27</sup> In the participatory process of CONAMAQ, the promotion and dissemination, to the entire population, of human rights and the rights of indigenous peoples, was mentioned. Reference was made to the need to promote an adequate and fair Gender Law (*Chacha Warmi*) applicable to indigenous women.

problem was identified at three levels of public administration (Central Government, Prefectures, and Municipal Government) and in social organizations (Vigilance Committees-CVs) and Grassroots Territorial Organizations (*Organizaciones Territoriales de Base-OTBs*)) in some cases.

159. In the Political Agenda, civil society stressed the need of taking action to ensure that the fight against corruption is a day-to-day practice among citizens. It suggested activities to “increase awareness and the use of communications media to apply moral sanctions to corrupt persons.” Civil society stated the need to make the Judicial Branch politically independent, and to amend some articles of the Constitution and other laws to strengthen policy efforts against corruption.

160. Government representatives agreed on the need to implement reforms of the Judicial Branch, and primarily the Council of the Judiciary [*Consejo de la Judicatura*] and the administration of justice, to eliminate institutionalized corruption. They also suggested elimination of excessive privileges for public officials and limitation of parliamentary immunity, which should be withdrawn in cases of ordinary offenses.

### **C. Results Achieved**

161. Following a process of consultation at the municipal and departmental levels and in the sectoral workshops and production lines (for the Economic and Social Agendas, respectively) resolutions were agreed, involving the State and civil society, with respect to concrete actions to reduce poverty. This consultation process helps to reaffirm Bolivia’s social capital and delineates a set of relationships between government and civil society in the prioritization of actions to combat poverty.

162. The Social Agenda of the National Workshop reflected the results from the Municipal and Departmental Workshops, whereas the political issues emerged as general demands which arose throughout the process owing to the postponement of the Political Summit. The Economic Agenda consolidated results from sectoral workshops and production networks, but only on certain themes were joint resolutions involving the government and civil society achieved.

163. The National Workshop of the Social Agenda established resolutions on a number of topics grouped into seven areas: (i) production infrastructure; (ii) production support; (iii) education; (iv) health; (v) basic sanitation; (vi) land and territory issues; and; (vii) policy and institutional issues.

164. Actions agreed in support of production and improved production infrastructure refer to: (i) establishment of policies on finance, development, and promotion to benefit small producers; (ii) product marketing systems; (iii) technical assistance and productive training; and (iv) construction, maintenance, and improvement of roads and irrigation systems.

165. Actions to improve the sectors of education, health, and basic sanitation refer generally to: (i) enhanced infrastructure and equipment endowment; (ii) skilled human

resources; (iii) priority allocation of public resources; and (iv) enhanced institution-building and management of different public institutions involved in the activities corresponding to each sector.

166. Although not included as resolutions, in order to enhance the institutional functioning of the State, it was proposed to reduce bureaucracy, use a participatory approach to design a mechanism for equitable distribution of resources of the General Treasury of the Nation (Tesoro General de la Nación - TGN), implement performance-based management, and institutionalize public offices. At the level of the prefectures, participants stressed the need to involve social actors in preparing the PDD (reforms included in the Law on Administrative Decentralization) and ensuring increased flexibility in the counterpart resources of prefectures and municipalities. Proposals at the municipal level refer to full and proper implementation of the Law on Popular Participation and an adaptation of the SAFCO Law (administration law) for application at the municipal level.

167. A variety of proposals were also generated for reform of public management. Consideration was given to the need to elect prefects and departmental council members by direct popular vote, and to create mechanisms to remove deputies and municipal councilors from office, regulate parliamentary immunity, expand the right to political representation to organizations and institutions of native communities and citizens, to institutionalize participation mechanisms (such as the National Dialogue), incorporate grassroots consultation mechanisms (referendums and plebiscites) into the Constitution, and eliminate monopoly party political representation.

168. The results of the National Dialogue, in its Social Agenda, made it possible to define specific short-term measures to fight poverty. It was agreed that the resources obtained through debt relief under the HIPC Initiative should be managed by municipal governments and transferred automatically through the banking system. Seventy percent of these resources will be distributed according to poverty indicators, and the remaining 30 percent will be distributed equally to Bolivia's nine departments; while distribution within the regions will be based on poverty indicators.

169. To achieve social control, it was resolved that the Catholic Church should participate in calling meetings of oversight authorities at the national and departmental levels. The Vigilance Committee should be the social control body at the municipal level.

170. The Economic Agenda of the National Workshop set forth eight cross-cutting issues related to the concept of competitiveness, including the following: development of production; more flexible financing for production, infrastructure, and public services; international economic relations; economic deregulation; tax administration and policy; labor legislation; and environment.

171. The proposals on the development of production refer to the need for measures meeting the requirements of the production sector, providing incentives for investment and coordinating the production apparatus to enhance productivity, value-added, and

employment. In this connection, the following action areas were identified: enhanced research for competitiveness, technical assistance, training and technological innovation, development of markets, enhancement of the Law on Investment Promotion, and establishment of an authority to monitor policy execution in the production networks.

172. Participants identified a need for financial services that are well-tailored to production requirements, and further stressed the importance of broadening regional and sectoral coverage, such as the credit guarantee fund aimed at the production sector, financing for rural areas, and elimination of parafiscal levies and/or local levies, inter alia.

173. With respect to the production infrastructure, the sectors and production networks voiced a need for improved coverage and quality of the infrastructure of services for production and tourism (roads, irrigation, river ports, silos, assembly and marketing systems, land and air terminals, energy, basic sanitation, telecommunications, and air transportation).

174. To reduce costs of production services administered by public and private agencies, the following actions were identified: increase the percentage of public investment for infrastructure construction (in this connection, priority allocation of HIPC resources earmarked for construction of infrastructure in support of production was proposed). In addition, rates and tariffs should be updated for operation of infrastructure and production services, to defray maintenance costs and broaden coverage.

175. On international economic relations, it was proposed that a commercial policy should be established to define a legal and regulatory framework for domestic and international trade and the market. In this connection, action is being taken to get countries to eliminate some barriers to imports and Bolivian national exports, such as quasi-tariff instruments derived from sanitary controls. Similarly, mention was made of the need to establish an investment policy that makes it possible to take advantage of investment agreements with the United States and promote investments in new sectors.

176. The problem of complex red tape and the “administrative services” that producers are required to carry out for government agencies was brought up. In this connection, it was proposed that the government, with support from the production sector, should promote a program to streamline procedures and implement adequate legislation to promote transparency and enhanced competition in all sectors. To that end, it was suggested that the Law on Procedures, the Law on Promotion of Competition, and reforms of the Commercial Code should be passed.

177. To eliminate tax policy biases that affect the production sequence and stimulate informal sector production and smuggling, in connection with legal or de facto processing for specific economic activities, the institutionalization of tax administration, professional status for human resources, and consistent civil service management were proposed. Concrete actions proposed related to rate adjustments for the specific consumption tax [*Impuesto al Consumo Específico*—ICE]; the establishment of special regimes designed to simplify

management of the beneficiaries of those regimes; execution of a process of tax regularization; and institutionalization of the National Internal Tax Service.

178. To achieve sustainable development, harmonization of environmental legislation with local and regional development requirements was espoused. The proposed intervention measures refer to regulations of the Law on the Environment and production restructuring measures with a view to achieving compliance with the Law on the Environment.

179. Participants indicated the need to harmonize and simplify labor legislation, maintaining worker protection, providing clear standards for working conditions, designed to generate employment and legal security for the parties involved. To that end, it was suggested that labor legislation should be modernized and that laws should be adapted for micro and small-scale enterprises (MSE's).

#### **D. The “Government Listens” Workshop**

180. A preliminary version of the Strategy was presented to civil society to elicit proposals on how it might be improved. With a view to approaching these proposals systematically, the government organized a seminar called “The Government Listens,” at which discussions were held not only on the Strategy, but also on the preliminary draft Law on National Dialogue and the Compensation Policy.

181. The event was organized into three Discussion Workshops. The first Workshop addressed the issues of Employment Opportunities and Incomes (rural development, micro enterprises, micro-financing, technological assistance, and road infrastructure) as well as Security and the Protection of the Poor, and the Environment. The second Workshop focused on the issues of Capacities (health, education, and basic sanitation), Citizen Participation, and Gender. Finally, the third analyzed the preliminary draft Law on the National Dialogue and the Compensation Policy.

182. The government listened to and compiled the comments and proposals made by civil society and considered them in preparing the final version of the Strategy. The main observations and suggestions from civil society are set forth below:

##### **Workshop 1: Opportunities, Security, and Environment**

183. Rural development: Requests were made for the certification of national agricultural products and to attach greater priority to production infrastructure with a view to expanding the industry and improving the conditions in the agriculture and livestock sector. It was requested that the rural community and indigenous peoples be involved in the development of local tourism.

184. Microenterprise: The need to promote culturally based microenterprise was expressed, and participants requested the inclusion of support for the small mining enterprise sector.

185. Microfinance: The granting of joint and several guarantees was proposed so as to improve access to microfinance services.

186. Technological assistance: The incorporation of traditional knowledge was proposed, as well as the depoliticization and debureaucratization of the SAT.

187. Road infrastructure: It was requested that the topic of the road infrastructure in outlying areas be added, along with explanation of the interconnection of the rural and basic road network, and simplifications of the rules for road projects. Attention was drawn to the need to consider instruments for social control.

188. Land: Address the land problem not strictly as an issue of legal security, but also from the standpoint of land redistribution.

189. Environment: It was suggested that comanagement mechanisms be introduced in the administration of community areas, as well as mechanisms for obtaining supplies of *chaqueo* wood.

### **Workshop 2: Capacities, Participation, and Gender**

190. Education: It was suggested that more emphasis be placed on alternative and technical education. Emphasizing the importance of scientific development, and enhancing the professionalism of teachers and directors, were proposed.

191. Health: Giving greater priority to preventive health for children in rural areas was recommended. It was also proposed to highlight activities involving natural medicine, and the need to improve the quality of care in hospitals and health centers.

192. Basic sanitation: It was suggested that greater emphasis be placed on components that will develop capacities for the maintenance and management of drinkable water and sewerage systems, as well as strengthening basic sanitation services and housing.

193. Participation: Consensus was reached on the issue of social control and monitoring of the outcome of public policies. Proposals were made to strengthen Popular participation through the presence of various civil society groups on Vigilance Committees, including those for the protection of women, children, and the consumer.

194. Gender: The importance of developing an information system that emphasizes gender issues was mentioned.

### **Workshop 3: Law on Dialogue**

195. Transfer of responsibilities in the areas of health and education: It was established that the transfer of responsibilities would be gradual and voluntary, accompanied by the resources necessary to finance the transfer and provide the necessary municipal capacity building.

196. Departmental prefectures: Emphasis was placed on the need to differentiate the concepts of fiscal control, auditing, and social control. More in-depth analysis of the legal feasibility of changing the composition of the Departmental Council was suggested.

197. Distribution of resources from debt relief: Broadening the list of possible uses of the resources from debt relief (without excluding any of the areas of municipal responsibility) was recommended.

198. Social control: The concept of the Social Trustee was introduced as an alternative mechanism for carrying out adequate social control. The need to ensure that social organizations not interfere in the functions of public entities was proposed, as was the State's noninterference in the operation of social organizations.

199. Compensation policy: It was suggested that Bolivia's Poverty Reduction Strategy clarify the formula for revenue sharing. It was proposed that the participation of social control in the DUF could be applied in the form of a social trustee, and the need to engage in deeper discussion and consultation on these topics and the final content of the Law was emphasized.

## **E. Conclusions**

200. The results of Dialogue 2000 provided useful input for the diagnostic assessment process and contributed to defining the priorities of the Strategy. The Dialogue emphasized the importance of employment and production support as factors that must accompany the provision of social services. Emphasis on human capital (education and health for the most part) as an element guaranteeing the generation of future income for the people was demonstrated by the diagnostic. In consequence, poverty reduction should accord priority to economic growth, with a larger share of the population participating in same.

201. Economic development from the local level is a prerequisite for broadening opportunities, and particularly for orienting actions for investment and maintenance of roads, production infrastructure (irrigation, micro-irrigation, and electrification) and marketing, production support, and enhanced access to credit for small producers.

202. Low levels of human capital have become an obstacle to growth, considering that the trade and international economic sectors demand a skilled, specialized work force. Despite the progress fostered by social policies in recent years, the coverage and, above all, the quality of public services must be increased. Agreement was reached as to the need to maintain high priority for investments in education, health, and basic sanitation, with a view to increasing the productive capabilities and human capital of the poor.

203. Dialogue 2000 indicated that the poor confront severe problems of vulnerability. In rural areas, water shortages and insufficient property ownership rights highlight this instability. In urban areas, risks of unemployment are the greatest source of uncertainty.



204. The processes of administrative decentralization and Popular participation will promote equity among poor regions and municipalities. There is a need to increase mechanisms for participation in public decisions to bring public actions closer to demand and grassroots priorities.

205. It was stated that the fight against corruption and efforts to improve the efficiency of public institutions are instrumental in increasing the impact of public action on poverty reduction. A better institutional design is a prerequisite for the success of the Strategy.

206. In relation to these conclusions, Bolivia's Poverty Reduction Strategy considers that the fight against poverty is not only an obligation of the State. It is also a task for society as a whole, as overcoming poverty must also involve action on the part of the poor themselves, as acknowledged in the National Dialogue.

207. The Strategy acknowledges that it is vital to restore the grassroots desire to participate; furthermore, the social capital at Bolivia's disposal must be channeled into joint actions of the State and society to confront poverty. In this connection, Bolivia's Poverty Reduction Strategy reflects the conclusions of the National Dialogue, and intends to use the participatory institutional framework existing in Bolivia in implementing its actions.

208. A first step toward maintaining the process of discussion with civil society was the Seminar/Workshop entitled "The Government Listens," which gathered suggestions and contributions from the various sectors. This method of interacting with society must be maintained in the process of implementing the Strategy.

## **V. THE BOLIVIAN POVERTY REDUCTION STRATEGY**

209. The fight against poverty requires a long-term vision and an effort shared by the government and civil society. Within this framework, the BPRS starts from the recognition that Bolivia has changed significantly in the past two decades. These changes manifested themselves in the political, institutional, economic, social, and cultural spheres.

210. The new institutional model underlying policy implementation with decentralization, and the criteria of efficiency which must guide this process, are central to the strategic actions proposed in the BPRS. However, the Strategy also highlights the importance of equity as a criterion which must accompany the design of public policies and the allocation of resources. Participation by the productive sectors, traditionally excluded from the generation of wealth, lays the groundwork for enabling a greater proportion of the population to benefit from economic growth through the mechanisms specified in the BPRS.

211. The strategic actions incorporate the characteristics of urban and rural poverty gleaned both from the diagnostic assessment of poverty and from systematic analysis of the results of Dialogue 2000. This consultation process, in addition to bringing the major

expectations of the population to light, were helpful in reaching agreements on the basis of which the Strategy's priorities have been defined.

212. The proposals of the BPRS are intended to identify the course to be followed in the fight against poverty and serve as the starting point for discussion on actions directed toward that end. Accordingly, prior to commencing the implementation of the major strategic actions, a preliminary version of this paper was submitted for discussion with civil society,<sup>28</sup> a process which made it possible to enhance the Strategy.<sup>29</sup>

213. The discussions with the participation of civil society made clear how important it is to take account of ancestral principles regarding the use of productive resources, principally water and the land, and to reconcile these views with more modern criteria which at the same time enhance the competitiveness of those sectors traditionally excluded from economic development.

214. The need to give the Strategy more of a production oriented focus, particularly from the standpoint of small producers, was stressed.

215. Despite the advances made in the decentralization process and the ratification of this course of action in Dialogue 2000, it was possible to ascertain the importance of carrying out this process gradually and in a coordinated way between the various levels of State administration. This process involves not only the transfer of resources, but also institution building at the local levels.

216. In the course of the discussions, the importance of strengthening public institutional soundness and having mechanisms for private participation which ensure efficient management and transparency in the administration of public resources was reiterated.

217. In many cases, the concerns of the population made reference to the need to complete the legal framework for reducing poverty. This situation highlights the importance of having an adequate framework accompanying the BPRS, and also illustrates the importance of disseminating information and applying existing regulations.

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<sup>28</sup> Two weeks after the BPRS was presented by the President of the Republic, the workshop on "The Government Listens" was held to gather impressions of the Strategy.

<sup>29</sup> As noted in Annex 7, a number of the concerns of civil society were addressed in the Strategy. However, other issues raised merit further discussion. As civil society indicated, the BPRS is a living document and is hence perfectible over time. The BPRS itself generates a mechanism for permanent evaluation and monitoring of the Strategy.

### **A. Objective and Strategic Components**

218. The objective of the BPRS is to reduce poverty and promote human development, placing emphasis on the neediest members of the population through improved access to markets, building capacities by providing basic public services, increasing social protection and security, and promoting citizen participation and integration within a context of growth with equity and rational use of natural resources.

219. With this goal, four interrelated strategic components and cross-cutting issues that define actions to combat poverty are established. These are aimed at:

220. Expanding employment and income opportunities: Productive capacity of small agricultural producers will be supported and promoted by supporting micro- and small enterprise, promoting rural development, and diversifying opportunities for generating income using assets. There will be increased investment in infrastructure to support production through road construction and maintenance, rural electrification, and the delivery of irrigation and micro-irrigation systems. Research and technological assistance directed to promoting small producers will be fostered.

221. Developing people's capabilities: Emphasis will be placed on primary education and basic health services with actions designed to improve the service infrastructure and the quality of human resources and to expand national programs within a decentralized setting. Basic sanitation coverage will be increased and housing conditions will be improved.

222. Increasing safety and protection for the poor: Protection will be provided for the most vulnerable segments of the population: children, the elderly, victims of violence, and those facing high economic risks, by developing emergency employment programs. Property rights on ownership of assets will be defined. Actions to prevent natural disasters and care for people harmed by natural phenomena of this type will be supported.

223. Promoting social integration and participation: Social participation will be promoted through training for citizen organization in order to deepen Popular Participation and Administrative Decentralization. This will give the poor, particularly rural communities and indigenous peoples, greater opportunities to have their demands and needs met, to improve social control, to band together and form new and greater social networks, and to improve their incomes and quality of life.

224. Cross-cutting issues: Actions directed to seeking equity will be promoted through policies designed to improve opportunities for ethnic groups and indigenous peoples, create citizenship capabilities, and protect and promote women's rights. Environmental management is a policy on rational use of natural resources that seeks to optimize the use of water and land resources, to strengthen planning, management and control of environmental quality, to develop mechanisms and instruments for appropriate management of biodiversity, and to promote the sustainable and equitable use of forest resources.

## B. Priorities

225. The diagnostic assessment and the conclusions of the National Dialogue made it possible identify priority action areas for reducing poverty. The priorities constitute the actions that the BPRS will undertake in the short and medium term. In this sense, it is important to focus actions on increasing the income of the poorest population and, over the long term, ensuring greater investment in human resources.

226. Creating income and employment: (i) Promotion of rural development through the creation of irrigation and micro-irrigation infrastructure, local roads, rural electrification, definition of property rights; (ii) promotion of microenterprise and small business; (iii) developing microfinancing ; (iv) supporting technological assistance ; (v) road infrastructure associated with the basic departmental and community network; and (vi) expanding income-earning opportunities for Bolivian citizens as asset owners.

227. Promoting human capacities: (i) Education with emphasis on primary school; (ii) health with emphasis on primary health care, immunizations, ARIs [*Infecciones Respiratorias Agudas—IRAs*), DDAs [*Enfermedades Diarreicas Agudas—EDAs*), care for mothers, elimination of endemic diseases and promotion of nutrition; and (iii) basic sanitation with emphasis on rural areas.

228. Carrying out the priority actions requires an adequate institutional framework that emphasizes combating corruption and guarantees competitiveness, reduces uncertainty, and provides equal opportunities. Sustainable development will be the framework for actions undertaken in this Strategy.

229. Efforts will be concentrated and resources allocated to increasing the efficiency of public policies, given that they will promote the country's overall development and raise the population's quality of life, particularly that of its poorest members.

230. These efforts will mean that the State must provide basic services in a decentralized framework, and regulate private activities in a framework of macroeconomic stability and strengthening of the rule of law.

231. The full participation of civil society is through the inclusion of the poor in actions to combat poverty, support for civil organizations, and the role of the poor in social control.

232. The long-term development of the BPRS will enable the population to attain satisfactory living standards, an economy of full integration in domestic and external markets, an institutional structure that is transparent, modern, stable, and provides equal rights, a democracy with a broad participatory base, and appropriate environmental management.

### **C. Strategic Actions**

233. Strategic actions for reducing poverty action plan are presented for each strategic component and includes the cross-cutting issues. The critical pathway that defines the priorities of the BPRS is detailed at the end of each strategic action, where specific actions, the regulations necessary to activate the Strategy, and the institutions responsible for implementing and/or approving the indicated legal instruments are presented.

#### **Expanding opportunities for employment and income for the poor population**

234. Bolivia needs to create the conditions to facilitate skills development by empowering the production sectors, allowing them to compete on external markets, and by increasing and diversifying production. To expand employment opportunities and incomes for the poor, the BPRS proposes strategic actions and specific policies relating to: (i) promoting rural development; (ii) encouraging development of micro- and small enterprises; (iii) developing microfinancing; (iv) supporting technological assistance; (v) increasing the road infrastructure; and (vi) expanding income-earning opportunities for Bolivian citizens as asset owners. The actions needed to achieve these specific objectives are examined below.

235. These six strategic actions are geared toward creating the conditions necessary for creating jobs and incomes in the medium and long term. In this way, the BPRS lays the groundwork for the development of productive opportunities which ensure the stable and sustained generation of jobs and incomes.

**Box 5.1**

**Productive Infrastructure and Support for Production,  
According to Dialogue Participants**

*“The proposal we have made is to build roads on which to bring our products to market and this has been taken into account in the conclusions of the Dialogue”  
(Demetrio Arano, President of the Chayanta Vigilance Committee, Dialogue 2000)*

*“We are concerned that we have no roads, electrification; there’s no education”  
(Isaac Mamani, Mayor of Pelechuco, Dialogue 2000)*

*On this subject, the National Dialogue agreed on measures relating to (i) establishment of financial, development, and promotion policies for small producers; (ii) systems for marketing products; (iii) technical assistance and training; and (iv) construction and maintenance of roads (arteries, departmental, and local roads) and irrigation and micro-irrigation systems.*

*The BPRS’s response to these agreements establishes: (i) promoting rural development by increasing productive infrastructure and diversifying nonagricultural employment opportunities; (ii) encouraging the development of micro- and small enterprises; (iii) developing microfinance, by diversifying the coverage of microcredit in urban and rural areas; (iv) supporting technical assistance; and (v) increasing road infrastructure by allocating more resources for road construction, reconstruction, resurfacing, and improvement.*

**(i) Promoting rural development**

236. Reducing rural poverty is one of the most important challenges of the Strategy. Rural development will be promoted by creating suitable economic and institutional conditions to enhance employment opportunities and increase income from production for this sector of the population.

237. In order to achieve this objective, the BPRS establishes the following strategic actions: (a) Expanding and improving productive infrastructure; (b) broadening and strengthening access to land as a resource; (c) increasing competitiveness; and (d) diversifying opportunities for nonagricultural employment.

*(a) Expanding and improving production infrastructure*

238. The action plan for achieving this objective includes constructing and maintaining local roads, constructing and maintaining irrigation and micro-irrigation systems, constructing basic agricultural infrastructure, maintaining electricity networks, and providing rural telecommunication services.

*Constructing and maintaining local roads*

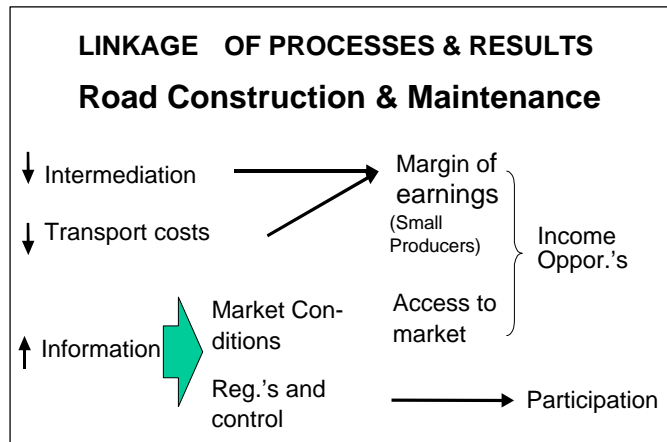
239. To overcome the inadequate infrastructure of local roads, the BPRS emphasizes the need to increase investment in routine and periodic maintenance of local roads and to develop a comprehensive plan for local roads connected to the departmental and basic road networks.

**Box 5.2**

**Rural Development and Local Roads**

*Investment in local roads is directly related to the need to open the economy up to medium and small producers. The need to invest in local roads has been identified in Dialogue 2000 as one of the more important actions for reducing rural poverty.*

*The relationship between investing in local roads and reducing poverty is explained by the high transaction costs that currently characterize the process of marketing by small agricultural producers. Indeed, nonexistent or poorly maintained local roads have a dual effect. They both increase transport costs substantially and lead to the creation of marketing networks of intermediaries known in Bolivia as “rescatistas” [agricultural brokers], thereby increasing transaction (marketing) costs.*



*These intermediaries act as monopsonists, in a context of asymmetrical information and providing imperfect market signals (prices and amount of demand); this distorts incentives and market operations for agricultural products. Investment in local roads is aimed at reducing the monopsonist power of the intermediaries by achieving reductions in general transport costs and promoting investment in market infrastructure in locations closer to farming communities. Thus the inference is that investment in local roads is directed to increasing the income levels and productive opportunities of the small agricultural producers who were identified as one of the poorest groups in Bolivia.*

240. The work of constructing, maintaining, and resurfacing the road infrastructure of the Municipal Network (local roads) must be incorporated into the Municipal Development Plans, for subsequent consideration in the Departmental Development Plans, when the work of constructing, maintaining, and resurfacing the road infrastructure of the Departmental Network is defined. Complementing the decisions of the National Planning System (SISPLAN), adequate support for municipal and departmental actions aimed at establishing a rationally interconnected national road network will be guaranteed.

241. In order to rehabilitate and maintain local roads, the Strategy will promote greater participation of micro- and small enterprises (MSE's), thereby generating greater employment opportunities, income transfer and stability, as well as a social commitment to maintaining and using roads. These management systems reduce resurfacing and maintenance costs in addition to promoting the sustainability of investment.

242. It is estimated that routine maintenance of local roads requires annual expenditures on the order of \$US 40 million. A significant portion of the road network also requires further maintenance, including resurfacing and expansion of local networks. It is estimated that these projects must usually be carried out every 5 to 10 years, but the need for them can be minimized with additional routine maintenance.<sup>30</sup>

#### *Constructing and maintaining irrigation and micro-irrigation systems*

243. Among the major causes of the limited expansion of the surface area under irrigation are: scant investment in irrigation, minimal use of improved irrigation and crop technologies, constraints in the operation and maintenance of irrigation systems, and limited public and private capacities for planning and technical assistance.

244. The total surface area under cultivation in Bolivia is currently about 2,094,000 hectares, of which only 245,600 hectares are irrigated; the potentially irrigable land area is some 1.5 million hectares.

245. By constructing new irrigation systems and improving and expanding existing systems, greater efficiency will be achieved in the use and supply of water, increasing productivity and raising crop yields.

246. The BPRS sees the improvement and expansion of irrigation systems as having a direct effect on reducing rural poverty, thus creating short and long-term effects. For these to be reflected in significant changes in productivity and crop yields, they will be accompanied by a comprehensive technological assistance program aimed at improving the profitability of the land in conjunction with sustainable soil and water management practices.

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<sup>30</sup> Routine maintenance is designed to address smaller problems. Periodic maintenance includes expansions and major repairs without involving road resurfacing.



247. The construction of irrigation systems will be concentrated in areas where there is potential for developing irrigated agriculture.

248. To ensure the efficient use of the irrigation and micro-irrigation infrastructure, it will be necessary to obtain technical assistance within each system implementation phase. The technical assistance should also be broadened to include issues relating to the use and efficient management of water and soil resources.

249. The improvement and expansion of the existing irrigation systems, as well as the construction of new systems and the provision of technical assistance, will be provided for in the National Irrigation Plan. Among the objectives of this plan are the efficient allocation of available financial resources by determining the overall irrigation requirements included in municipal development plans, targeting investment in light of specific strategies, establishing priorities, and considering a basin approach.

250. The National Irrigation Plan and the Departmental Irrigation Plans represent the government's policy in the area of irrigation and the use of soils and water. As part of this plan, it is proposed to implement the second phase of the National Irrigation Plan (PRONAR2) until 2015; the second phase is aimed at building upon the actions taken under PRONAR1 while focusing upon activities on a larger scale.

#### *Construction of basic agricultural infrastructure*

251. Investment in production infrastructure also includes basic and small-scale infrastructure relating to agricultural needs and marketing needs of this sector. Such projects include: collection centers, storage centers, silos, greenhouses, and livestock infrastructure (including livestock dips, stables, corrals, milking modules, and artisanal workshops).

252. This form of investment is aimed at providing micro-infrastructure conditions conducive to the development of agricultural activities. The development of this infrastructure will be financed by increasing the existing supply of MAGDR projects and programs, which include the PASA, DRIPAD, PROSAT, and PDCR-II.

253. The formation of local and regional MSE's will also be promoted; these may, using support from the SAT modules and programs through the Vice Ministry of MicroEnterprise, specialize in the provision of this type of productive infrastructure.

#### *Rural electrification*

254. The rural electricity supply is a key factor in the ability to generate income among the poor sectors of the population.<sup>31</sup> The National Rural Electrification Program (PRONER) will

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<sup>31</sup> Seventy-eight percent of all municipal workshops identified this as the most important action to be given priority in combatting poverty (all but Beni and Pando).

be strengthened. This program will be enhanced by the inclusion of renewable sources of energy, the general goal being to eliminate financial, institutional, technical, and human resource-related barriers to achieving successful implementation of projects and to initiate a sustainable program that can be replicated in other rural areas of the country.

**Box 5.3**

**Rural Electrification in Bolivia**

*Bolivia is one of the countries with the least rural electrification coverage in the region. Traditionally, rural electrification programs have been centrally planned with limited objectives, have had substantial subsidies, and have lacked sufficient societal support and participation.*

*The obstacles to expanding the coverage of electricity in rural areas are based not on a scarcity of energy sources, but rather and primarily on varied economic, organizational, and geographic conditions, as well as low population density.*

*As a result of direct facilitating action taken by the Vice Ministry of Energy and Hydrocarbons, between 1998 and 1999 electrification coverage increased from 13.7 percent to 20.5 percent, a figure reflected in 64,000 new connections. This increase is due primarily to greater availability of funds.*

*Despite these recent advances, approximately 700,000 rural households lack electricity. It is estimated that the investment required for rural electrification in the entire country is about US\$1 billion. However, given the constraints on obtaining these funds, the State decided to deal with these problems by implementing the National Rural Electrification Program (PRONER), which began a process of ongoing management for financing rural electrification, consistent with Bolivia's real investment and implementation capacity.*

*PRONER, planned as State policy, seeks to support and promote socioeconomic development in rural areas through electrification, creating conditions that help to strengthen economic activities and improve the quality of life of rural populations.*

255. Expanding into a second phase of PRONER will involve connecting about 200,000 more rural households to the electricity system, in addition to those already connected, and about 76,000 more that PRONER I is expected to connect during the years 2000-2002. In this way, a coverage of 40 percent of rural households will be achieved in 2006.

256. To achieve these goals, based on PRONER's analyses and projections, the existing network will be expanded, new hydroelectric power plants will be built, and existing thermal power plants will be converted to using nonconventional energy sources.

*Rural telecommunications*

257. The necessary mechanisms will be created to install telecommunications networks in the country's poorest areas. To this end, the Office of the Vice- Minister of Transportation, Communications and Civil Engineering (VTCAC) has designed the National Rural Telecommunications Program (PRONTER Universal) in the context of policies on universal service, in compliance with the Telecommunications Law.

258. The general aim of PRONTER is to contribute to the economic and social development of Bolivia's rural population by facilitating their access to regional, national and international public telecommunications networks.

259. PRONTER's specific objective is to expand the coverage of telecommunications services to rural population centers with fewer than 350 inhabitants, which are not covered by the Concession Contracts entered into with service operators, by providing resources to operators for development projects and granting State subsidies to rural development charges.

260. Implementation of this program will make it possible to carry out complementary remote programs, primarily in education, health, agricultural assistance, and nutrition, which have a direct impact on impoverished sectors.

*(b) Broadening and strengthening access to land as a resource*

261. One of the most common complaints expressed by the national agricultural sector pertains to the lags in the regularization of land tenure titles in rural areas and the restrictions this imposes on attracting investment and or improving property. Legal security in respect of agricultural ownership is a prerequisite for attracting and increasing investment in rural areas, and achieving comprehensive and sustained economic development.

262. Under the BPRS, the property regularization in rural areas will be completed in 2006, as will the strengthening of the related institutional framework (including INRA, the Agricultural Superintendency, National and Departmental Agricultural Councils, and the Agricultural Tribunal). Both components will be addressed in greater detail in the component on the security and protection of the poor.

263. The BPRS stresses the need to improve access to land as a resource, through conclusion of the process of regularizing ownership in the Native Community Territories (TCOs) in the eastern part of the country and the reduction in the current levels of inequality in land tenure in the high plateau [*altiplano*] and valley regions. In addition, the BPRS ratifies the principle of complementing the economic and social function by guaranteeing the right to own agricultural property and strengthening human settlement programs.

*(c) Increasing competitiveness*

264. The competitiveness of the agricultural sector will be increased through effective interconnection of the various stages of production and marketing. This interconnection will be developed by means of identifying and implementing agro-food and agro-export networks.

265. The vertical interconnection of the production and marketing process represents an effective means of reducing transaction costs, thereby improving the competitiveness of the products or goods produced.<sup>32</sup> The vertical interconnection of agro-food and agro-export production will make it possible to effectively match demand and supply at each stage of production and marketing, while also identifying the requirements for improved technology and for production control and quality. The end-result is the production of higher quality goods at a lower cost, thereby enhancing competitiveness.

266. The identifications of agro-food and agro-export networks represents one of the strategic focuses of the National and Departmental Agricultural and Rural Development Plans of the MAGDR. The Departmental Plans will identify potential productive resources, establish and develop possible production networks that will guarantee the effective vertical integration of regional producers.

267. The networks for quinoa and camelidae have been identified in La Paz, Oruro, and Potosí, and are now being developed. It is anticipated that, once the Departmental Plans have been finalized, the agro-food and agro-export networks in the remaining departments will begin operations.

268. The second stage in the implementation of production networks is the identification of restrictions and weaknesses within production chains. Support for the linking of the networks will then be geared toward the provision of information, technical assistance, entrepreneurial management, financing opportunities, and other requirements for increasing efficiency and productivity at each stage of production. This support will be provided by targeting the services of MAGDR and of international cooperation toward meeting these needs. Among the major programs and projects that will be oriented toward strengthening productive sequences are: PASA, DRIPAD, PROSAT, PDCR-II, and PROTRIGO.

(d) *Diversifying nonagricultural employment opportunities and increasing income from paid employment*

269. Promoting nonagricultural rural employment is an important element for reducing poverty. It has been demonstrated that a substantial proportion of the rural population diversifies its income by combining earnings from agricultural production with income obtained from other activities, including participation in compensated labor markets. It is also

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<sup>32</sup> It is hoped through this process to link all intermediate production and marketing processes.

indicated that people in rural areas with nonagricultural employment are less likely to face poverty.

270. Support for diversification of nonagricultural income also includes programs specifically directed toward promoting the processing of agricultural products, facilitating their marketing, ensuring effective participation in domestic markets, and opening up opportunities on foreign markets. Among the more important programs included in this area are: The Bolivian Export Foundation COFIDA (Phase II), the PRODIZAVAT project, the Mink'a Potosí Project (Phase IV), and the Amboró Project.

271. The BPRS will support the development of rural tourism as an activity with significant potential for generating nonagricultural income. The rural tourism programs and projects will be developed as part of the National Tourism Plan in coordination with the efforts of MACPIO and the Vice Ministry of Micro-Enterprises. These actions are interlinked in order to ensure the active participation of the rural populations, as they are the ultimate beneficiary of developing tourism in rural areas.

272. Incentives will be provided to encourage the participation of local populations in developing rural tourism at two different levels. On the one hand, actions will be oriented toward promoting the local ownership of programs and projects proposed in the National Tourism Plan. Efforts will be concentrated in developing strategies to ensure that comprehensive tourism complexes like Lake Titikaka, the Jesuit Missions, the Amazon Triangle of Guayaramerín, Riberalta and Cachuela Esperanza involve the active participation of local populations.

273. There will also be an effort to promote the development of rural MSE's so that the latter may undertake initiatives aimed at generating local tourism potential. The provision of tourist services, including housing, meals, and information, are initiatives that can be carried out with the participation of the local population which could establish rural MSE's. These initiatives could be coordinated with MACPIO and the Vice Ministry of Micro-Enterprises.

Matrix 5.1  
Matrix of Priority Actions and Policies for  
Promoting Rural Development

Strategic Action	Action Plan	Regulatory Instruments	Responsible Institution
Expand and improve productive infrastructure	Construction and maintenance of local roads.	-----	GM Prefectures DUF
	Construction and maintenance of irrigation and micro-irrigation systems. Formulation of subsectoral policy and consolidation of projects through the National Irrigation Plan.	-----	DNRS MAGDR DUF
	Construction of basic agricultural infrastructure.	-----	MAGDR
	Provision and maintenance of electrical power networks: The operations of PRONER will be extended.	-----	VMEH
	Provision of rural telecommunications services (PRONTER Universal)	-----	VTCAC
Expand and strengthen access to land as a resource	Conclude the regularization of rural land ownership.	Revision of the INRA Law and Regulations	INRA MAGDR
Increase competitiveness	Identification and selection of agro-food and agro-export sequences through the Agricultural and Rural Development Plans	-----	MAGDR
Diversify opportunities for nonagricultural employment and increase income from paid employment	Design and implementation of programs to promote rural tourism. Design and implementation of programs to promote and support production of handcrafts	-----	VT VMME MACPIO MAGDR

----- Actions that do not require regulatory instruments or already have regulations.

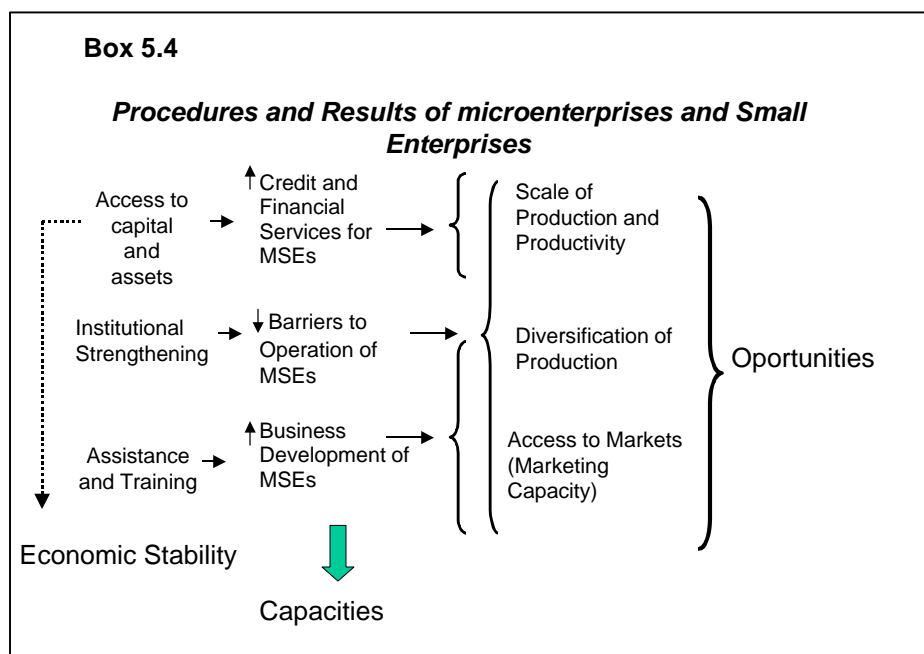
**(ii) Promoting the development of micro- and small enterprises (MSE's)**

274. Strengthening MSE's will be one of the principal instruments of current government policy for transforming production and combating poverty. The basic objective is for micro- and small enterprises to be competitive, self-sustaining, integrated horizontally and vertically, and to contribute to economic growth in a sustainable and equitable way. The

BPRS will consider MSE's to be a sector capable of promoting growth and generating stable and productive sources of manpower.

275. The problems associated with performance of MSE's relate to: the existence of an uncompetitive environment owing to an inadequate regulatory framework, limited access to non-financial services,<sup>33</sup> and insufficient capacity of public and private organizations to provide support to the sector to enable it to provide services effectively and efficiently.<sup>34</sup>

276. The BPRS seeks to support and strengthen the MSE Development Plan promoted by the Ministry of Labor and Micro-enterprise. In this context, the following strategic lines of action were identified: (a) to create a competitive environment for the performance of MSE's; (b) to promote development of a nonfinancial services market to respond to the needs of the sector; and (c) to develop the capabilities of public and private organizations supporting microenterprise.



(a) *Creating a competitive environment for the operations of MSE's*

277. The operations of MSE's are determined by the regulatory, legal and institutional framework in which they operate as well as the infrastructure used. The current legal framework should be revised to promote the effective operation of these enterprises. The

<sup>33</sup> Access to financial services will be examined under the Developing Microfinance heading.

<sup>34</sup> Ministry of Labor and Micro-Enterprises, 2000.

rules of business will be aimed at reducing transaction and financial costs to improve the operation of micro- and small enterprises.

278. The development of an environment conducive to the operation of micro- and small enterprises will be achieved by simplifying, modernizing, and adapting the current legal systems to the characteristics of micro- and small enterprise. In this connection, the preliminary draft Law on the Development of MSE's proposes the modernization of the legal environment and adaptation of current regulations to an environment facilitating the operation of MSE's.

279. Adaptation of the regulatory framework will support the formalization of MSE's, ensuring that they gain access to the benefits of the formal sector (access to credit and other benefits). To formalize the activities of these enterprises it will be necessary to evaluate the regulations governing the commercial registry system and operating licenses. These reforms will be considered as part of the simplification and modernization of the present system governing the formation and operation of micro- and small enterprises.

280. In addition, the infrastructure within which MSE's operate is precarious and inadequate and has generally not been designed for the purposes of producing or selling goods and services.

281. Expanding the production infrastructure will take place through public investment plans and programs carried out by the municipalities. This demonstrates that there is increasing scope for MSE's to participate in the process of expanding the production infrastructure, which, in turn, will contribute to broadening their own productive capacities.

*(b) Promoting the development of a nonfinancial services market*

282. The promotion of nonfinancial business development services is directed toward increasing productivity and ensuring the quality of the goods and services offered by MSE's. The BPRS identifies two actions for promoting the development of a nonfinancial services market: (i) providing technical assistance services, training in business management, information and marketing; and (ii) coordinating the incentives for artisanal production through programs for craftsmen and small industry.

283. The BPRS will promote the development of business and microfinancial services in order to improve microenterprise competitiveness and sustainability. To this end, support will be given to expanding and consolidating an information services network, and training vouchers will be introduced for business techniques and management.

284. The provision of technical assistance is aimed at consolidating an information services network and introducing training vouchers in business techniques and management included among the modular programs of the Technical Assistance Service (SAT). The SAT represents State policy in the area of technical assistance and training services. It is anticipated that the efficiency of these services will improve as a result of the institutionalization of the SAT and its conversion into a second-tier entity.



285. The SAT's modular programs establish a competitive mechanism for approving innovative projects. Support will be extended to about 100 projects benefiting about 3,000 micro- and small enterprises. In this way, it is hoped to generate specific opportunities to support artisanal micro-enterprises, small industry, and generally support innovative startups.

*(c) Developing public and private sector capacity to support micro-enterprises*

286. The BPRS suggests two specific actions to develop the capacity of public and private organizations supporting the MSE sector: (i) the coordination of the efforts undertaken between the government, MSE's, and international cooperation agencies in the implementation of job-creating projects; and (ii) institutional strengthening of the financial institutions serving urban and rural MSE's.

287. Coordination between the government, MSE's, and international cooperation agencies is aimed at ensuring their participation in investment projects and maintaining productive infrastructure, the provision of supplies and equipment, and other innovative undertakings where MSE's traditionally have not been involved. The objective is to achieve MSE participation in the construction and maintenance of local roads, micro-irrigation works, and basic sanitation systems, among others. In a decentralized framework, the possibilities will broaden in keeping with the municipalities' priorities.

Matrix 5.2.  
Matrix of Priority Actions and Policies  
Promoting the Development of Micro- and Small Enterprises

Strategic Action	Action Plan	Regulatory Instrument (1)	Responsible Institution
Create a competitive environment for performance of MSE's	Revision and adaptation of regulatory framework to the characteristics of MSE's. Expansion of productive, commercial and services infrastructure	Preliminary draft Law on Developing MSE's	MTM MH MDE Prefectures Municipalities
Promote the development of a non-financial services market	Provision of technical assistance services, training in business management, information, and marketing. Coordinate incentives for artisanal production through programs for craftsmen and small industry.	-----	MTM SAT PROSAT
Develop public and private sector capacity to provide support to MSE's	Promote coordination between the government, MSE's, and international cooperation agencies. Promote the institutional strengthening of the financial institutions serving urban and rural MSE's.	-----	MTM SAT PROSAT Prefectures Municipalities

(1) ----- Action that does not require a regulatory instrument or already has regulations.

*(iii) Developing microfinance*

288. Promoting microenterprise is closely linked to a microcredit and microfinance policy. Microfinance does not represent an extension of microcredit, but rather covers different services (e.g., savings and transfers of funds) that are greatly needed among groups such as the rural population that are traditionally shut out of the financial system.

289. The problems associated with the supply of credit fall into the following categories: limited coverage by institutions engaged in microfinance, the dearth of financial instruments suitable for the activities of urban and rural microenterprises, and the lack of a regulatory framework, which impedes development of financial entities in rural areas.

290. Problems referring to the demand for credit concern the characteristics of prospective borrowers and the conditions they face in terms of their levels of production, marketing, and distribution of their products, as well as their limited management and business administration skills. In some cases, this situation has produced high levels of excess indebtedness on the part of a sizable proportion of credit applicants, an issue which itself restricts credit access possibilities.

291. In addition, the following bottlenecks are seen in rural areas: lack of a regulatory framework to facilitate the development of commercial financial institutions; limited coverage and low productivity of microfinance institutions (small and limited in scope, inadequate credit conditions and short loan terms); and limited capture of rural savings.

292. In order to overcome the lack of access to credit in urban and rural areas, the BPRS proposes to: (a) diversify and expand microcredit coverage in urban and rural areas; (b) strengthen the institutional and regulatory framework; and (c) improve quality in the supply of microfinance, particularly regarding to credit.

*(a) Diversify and expand the coverage of microfinance*

293. In order to diversify and expand the coverage of microfinance in urban and rural areas, support will be given to the NAFIBO and FONDESIF programs, basically emphasizing incentives for the development of financial services markets that seek to expand financial competition. Specific actions are designed to provide greater assistance to regulated financial entities; to channel international cooperation resources to the rural financial system; to improve the rules to allow expansion of financial services; to promote complementarity in the activities of public and private agencies and international organizations; and to promote financial services, particularly for low-income women.

*(b) Strengthening the institutional and regulatory framework*

294. Strengthening the regulatory and institutional framework is designed to provide greater opportunities for borrowers and potential investors for small urban and rural producers. In order to achieve this goal, more credit for small and micro-enterprise will be made possible in urban areas and loans to small farmers will be regulated. The Draft Law on

Strengthening the Financial Intermediation System [*Proyecto de Ley de Fortalecimiento de Sistema de Intermediación Financiera—PLFSIF*]<sup>35</sup> and the Draft Law on Real Property Guarantee will make it possible to expand opportunities for small producers. The PLFSIF will expand the operations of nonbank financial institutions (mutual associations, savings and loan cooperatives, private financial funds), which by their nature primarily serve the MyPES.

295. To enable financial services to reach rural areas, and given the characteristics of the country, it will be necessary to allow financial institutions that are not supervised by the Superintendency of Banks and Financial Institutions [*Superintendencia de Bancos y Entidades Financieras—SBEF*] to operate alongside those that are. In order to expand services in rural areas, support mechanisms for supervised and unsupervised entities will be designed by FONDESIF (technical assistance, institutional strengthening, implementation of financial services, development of technology, financial resources) and NAFIBO (financial resources for supervised institutions). The purpose of these mechanisms is to create attractive conditions so that the financial institutions will operate in rural areas.

296. The strengthening of the institutional framework will also be directed toward creating favorable conditions so that municipalities will facilitate the creation of financial and development opportunities for micro-enterprises and small businesses [*Medianas y Pequeñas Empresas-MyPES*], without assuming the functions of a first tier bank or commercial bank. The purpose is to have municipalities promote and facilitate the establishment of firms at the local level, taking advantage of the region's potential and facilitating the introduction of financial services by financial institutions.

297. The strengthening of the institutional and regulatory framework for microfinance companies is aimed at expanding financial services in rural areas, facilitating access to credit, promoting the provision of financial services, developing financial technologies, and improving the supply of credit and other financial services.

298. As part of this strengthening, the relevant offices of the Executive Branch will coordinate the financing facilities provided by Bolivia's international cooperation partners so as to ensure an efficient use of external resources, prevent distortions in the microfinance market, and bring the mechanisms into line with the prevailing market rules, by avoiding subsidy interest rates and possible liabilities for the State, while ensuring the targeted and discretionary allocation of the resources in question.

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<sup>35</sup>The PLFSIF creates the Deposit Insurance Fund [*Fondo de Garantía de Depósitos*] and introduces substantial modifications to the Law on Banks and Financial Institutions.

*(c) Improving the quality of the supply of microfinance*

299. Support will be given to the development of financial services for rural MSE's and the financial entities serving MSE's will be strengthened while improving information systems within the financial system, both actions with the approval of specific regulations.

300. In order to improve efficiency in the supply of credit, the development of technological innovations will be promoted through technical assistance programs specializing in the introduction of new financial technologies. Training will be directed to ensuring that the resources of Microfinance Entities (MFEs) can be used to design new financial products and can adapt to the development of new technologies.

301. The efficiency of the supply of credit will be improved by expanding programs such as the Program for Human Resources Training in Microfinance Entities, currently being implemented successfully by the Bolivian Institute of Business Studies (IBEE) and the Cooperative Training Institute (INCOOCAP) in the cities of La Paz, Santa Cruz and Cochabamba.

**Matrix 5.3**  
**Matrix of Priority Actions and Policies**  
**Developing Microfinance**

Strategic Action	Action Plan	Regulatory Instrument (1)	Institution Responsible
Diversify and expand microfinance coverage in urban and rural areas.	Support expansion of the coverage of financial services for MSE's, with special emphasis on rural areas. Channel international cooperation resources to the microfinance system	-----	FONDESIF
Strengthen the institutional and regulatory framework	Promote regulations enabling unregulated institutions to make information transparent. Agree on and manage a regulatory framework and standards which ensure the development of microfinance. Promote coordination between the public sector, private sector, and international cooperation agencies at the departmental and local levels.	Law on Real Property Guarantee, Regulatory Decree on the operation of unregulated financial entities administering government resources, Strengthening the Coordinating Committee in the area of Microfinance and Micro-Enterprises, and Law on Strengthening the Financial Intermediation System	VAF NAFIBO, FONDESIF
Improve the quality of the microfinance supply	Support the development of financial technologies, products, and services adapted to the requirements of MSE's. Promote and support the development of financial services for rural MSE's. Promote the institutional strengthening of financial entities serving urban and rural MSE's. Improve the information within the microfinance system.	-----	FONDESIF

(1) ----- Action that does not require a regulatory instrument or that already has regulations.

*(iv) Supporting technical assistance*

302. Support for research and technological innovation is directly tied to access to and dissemination of information, which in turn makes it possible to reduce the transaction costs, production costs, and marketing costs for agricultural and industrial products, to improve product quality, and increase the competitiveness of production.

303. In rural areas, the BPRS will support technological assistance through the institutional strengthening of the Bolivian Agricultural Technology System [*Sistema Boliviano de Tecnología Agropecuaria*—SIBTA] and the mixed public-private foundations which it brings together. SIBTA reflects State policy in the area of extension services and training.

304. In urban areas, support for technological assistance will be channeled through business development services to be implemented as part of the National Micro- and Small Enterprise Development Program. Specific actions of this plan in terms of technological assistance include training, advisory services in business management, and market information. Programs will also be developed in science and technology as part of the actions of the National Science and Technology Council [*Consejo Nacional de Ciencia y Tecnología*—CONACYT], in coordination with international organizations.

305. Promoting technological assistance in urban and rural areas will be carried out through the following actions: (a) supporting implementation of a new system of technological innovation; (b) establishing an information system to link supply and demand for technical assistance through the Technical Assistance Service (SAT); and (c) developing a comprehensive technical assistance system in the context of SIBTA.

*(a) Supporting implementation of the new agricultural technology system*

306. The aim of the SIBTA is to increase and optimize public and private investment in the agricultural production process, through the provision of nonfinancial services associated with the promotion of competitive and sustainable agriculture.

307. The BPRS will support implementing the new Bolivian Agricultural Technology System (SIBTA) by stressing the need to make efficient use of the national and international resources devoted to technological development of the agricultural, agro-forest, and industrial sector. Most of these funds will be coordinated within SIBTA. The Foundations for the Development of Agricultural Technology [*Fundaciones para el Desarrollo de la Tecnología Agropecuaria*—FDTAs] that are responsible for meeting demand from producers and supporting research centers in the transfer and adoption of technologies will be strengthened.

308. In rural areas, the implementation of technological innovation and research will support knowledge, technologies, practices, and local customs that represent effective ways of using technology and innovation.<sup>36</sup>

*(b) Establishing an information system to link demand and technological supply*

309. The establishment of systems to connect demand and technological supply is intended to reduce transaction costs, increase the productivity of production, and generally increase the efficiency of investment.

310. The following actions were identified for matching research and technology transfer needs in the productive sector to the State's supply of technical assistance: matching institutional academic supply (universities and research centers) to agricultural enterprises' and producers' specific needs for research, training and technical assistance; promoting the development of knowledge by expanding access to the Internet and promoting exchange programs; and facilitating the dissemination of agricultural information by establishing commodity exchanges to achieve better market operations.

311. Linking productive demand for technical assistance to the State's supply will be performed by means of institutional agreements between the State (universities and other research centers) and the Federations of businessmen, producers, and representatives of small rural producers.

312. To achieve an effective matching between the demand for training and the State's supply, the BPRS will support the implementation of business development services for MSE's. These services include expanded training, technical assistance, and advising on business management, the establishment of a network of information centers and business development services, and expansion of the voucher program for MSE's.

313. Expanded training and technical assistance to enterprises includes training programs, advising on business management, market information, and the promotion of conglomerates and trade associations. A network of information centers and business development services will be established to facilitate MSE access to such services, and the expansion of training programs, technical assistance, and business management advisory services.

314. The voucher system enables MSE's to select the most appropriate program and providers to meet MSE needs more effectively. Expansion of the voucher program will offer a diverse range of business management programs (business administration, accounting, and financial analysis) and production programs (such as carpentry, agro-industry, and assembly).

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<sup>36</sup> Proposals relating to traditional knowledge and technologies are presented as part of the cross-cutting topic: "Promoting Development with Identity."

*(c) Developing a system of comprehensive technical assistance*

315. The development of a comprehensive technical assistance system is intended to establish technical assistance and multisectoral and multitopic instruction for training the trainers. The objective of these programs is to generate economies of scale by investing in the training of future trainers.

316. In order to strengthen initiatives of this type, incentives will be provided for financing and implementing technical training programs and developing resources according to the municipalities' mission and economic potential.

Matrix 5.4  
Matrix of Priority Actions and Policies  
Supporting Technological Assistance

Strategic Action	Action Plan	Regulatory Instrument (1)	Institution Responsible
Support the implementation of research systems and technological innovation.	Consolidation of research system and rural technological innovation (SIBTA). Linkage between SIBTA and Foundations for Development of Agricultural Technology (FDTAs). Development of science and technology programs in urban areas	Consolidate the institutional framework of the National Research and Innovation System. Technological Innovation Law. Promulgate the Intellectual Property Law.	SIBTA FDTAs SENASAG CONACYT
Establish an information system to match demand and technological supply.	Establishment of agreements between universities and private entities to match production sector needs to academic supply. Programs to support the development of knowledge Dissemination of agricultural information. Implementation of business development services in micro- and small enterprises.	-----	SIBTA Universities Public Research Centers.
Develop a comprehensive technical assistance system.	Development of technical assistance programs and multi-sectoral and multi-subject training. Financing and implementation of technical training programs and development of human resources according to the municipalities' mission and economic potential.	-----	SIBTA

(1) ----- Action that does not require a regulatory instrument or that already has regulations.

*(v) Improving, maintaining and increasing the road infrastructure<sup>37</sup>*

317. A requirement for reducing poverty is a road infrastructure that allows for economic development. The multiplier effects of an adequate road infrastructure are important for increasing production. The benefits include energizing trade, reducing transaction costs, promoting access to products essential to the development of the most depressed communities, generating employment and facilitating access to basic services.

318. Strategic actions intended to increase road infrastructure involve implementing the Master Plan for Land Transport, promoting private participation in road construction and increasing investment in the main road network.

319. The Master Plan for Land Transport is the planning tool that will define the methodology for allocating resources among the various modes of transportation and will make it possible to establish road infrastructure construction and maintenance needs, taking into account technical, economic, social and environmental criteria, thereby facilitating efforts to reduce overall transport costs through efficient utilization of the resources allocated to the sector.

320. The Third Resurfacing and Maintenance Program will make it possible to recover transitivity levels for the next 5 to 10 years. To this end, repaving and/or gravel or rubble replacement work will be done, surface drainage will be improved, and structures that have deteriorated will be resurfaced (sewer conduits and bridges).

321. Improving the infrastructure of the Fundamental Roads Network requires private sector participation in financing road infrastructure; the avoidance of excessively heavy loads that accelerate the deterioration of highways; availability of a technical mechanism for allocating resources; an adequate institutional structure for the efficient management of resources; creating an appropriate regulatory framework; and developing mechanisms to make funds allocated by the government available on a timely basis.

322. The Transport Law and its regulations will be promulgated to complete the sector's regulatory framework; they will define the ground rules for providing transport services, on the basis of which specific standards will be developed for each mode of transport. The Master Plan for Land Transport will be approved as the instrument which defines the

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<sup>37</sup> The National Highway System was defined in Supreme Decree 25134 of 8/ 21/98, establishing that the system consists of the Fundamental Network (under the National Roads Service), Departmental Networks (under the prefectures through the Departmental Road Services) and Local Networks (under the Municipalities). Compliance with environmental protection standards is required in order to be a Fundamental, Departmental or Municipal Network.



policies, strategies, programs, and recommendations for intervention in Bolivia's road infrastructure.

323. The Law on Concession of Public Transportation Projects and its regulations are intended to stimulate private participation in road transport projects. These instruments will make it possible to transfer the administration of more than 20 percent of the Main (Fundamental) Road Network to the private sector.<sup>38</sup>

324. The Cargo Law regulating the weights and sizes allowable for freight or passenger transport vehicles on the country's highways will be enforced to safeguard investments made in road infrastructure and to guarantee the proper use of highways. These provisions must be gradually applied to all of the country's highways, particularly the integration corridors where greater high tonnage truck traffic is expected. The various control points for this must be suitably equipped.

325. Institutionalization of the National Roads Service (SNC) will make it possible to depoliticize its actions, make its staff professional and reduce corruption. For this purpose, the SNC will be transformed into an autonomous entity administered by a board of directors with an Executive Chairman and four Directors appointed by the President of the Republic from a short list approved by a two-thirds vote of the members present at a session of the House of Representatives. Institutionalization of the SNC must move ahead and be improved, redefining its organic structure, selecting staff by merit-based competitions within the framework of the Civil Service Regulations, and developing the operations manual.

326. In order to make State resources available for road infrastructure, a mechanism must be designed to ensure a permanent sources of funds to be used as expeditiously as possible. One option is to create a fund that has resources that could come from payment of tolls, allocations from the TGN, and contributions from the International Community.

327. Although resources will be allocated based on the Master Plan for Land Transport, four integration corridors have been identified for completion as priority long-term projects: East – West, linking (Santos, Brazil) - Arroyo Concepción - Santa Cruz – Cochabamba – Tambo Quemado (Arica, Chile). North – South, linking Trinidad – Santa Cruz – Yacuiba. West – North, linking (Desaguadero, Peru) – La Paz – Guayaramerín. West – South, linking (Desaguadero, Peru) – La Paz – Oruro – Potosí – Bermejo.

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<sup>38</sup> The Road Concessions Program consists of the following projects: (i) Routes to the Pacific (1,000 km); (ii) Central Axis Road Distributor (1,000 km); and (iii) Eastern Routes Road Distributor (200 km).

Matrix 5.5  
Matrix of Priority Actions and Policies  
Building the Road Infrastructure: Fundamental Network

Strategic Action	Action Plan	Regulatory Instrument (1)	Responsible Institution
Improve the road infrastructure (more and better quality roads)	Private participation.	Grant concessions.	VTACAC
	Cargo checks.	Enforce Cargo Law.	VTACAC-SNC
	Efficient allocation of resources.	Transport Master Plan and Institutionalization of the SNC.	MDE-VTACAC
	Complete the regulatory framework.	Transport Law.	MDE
	Implement the Concessions Law	Road Infrastructure Fund.	MH

(1) ----- Action that does not require a regulatory instrument or that already has regulations.

***(v) Expanding income opportunities for Bolivians as owners of assets***

328. The Law on Property and Cooperative Credit (PCP) created two benefits using the resources of the Collective Capitalization Fund (FCC), which come from the process of capitalizing public enterprises, Bolivida, and Acciones Populares (APs).

329. Bolivida is an annual allowance to those over 65 years of age on December 31, 1995, and is part of the social safety net created by the Bolivian government.<sup>39</sup> Bolivida will be financed by using 30 percent of FCC resources.

330. APs are transferable Fiduciary Certificates which will be distributed to all Bolivian citizens over the age of 21 and less than 50 years of age on December 31, 1995. APs will be financed using 70 percent of the resources of the FCC, amounting to approximately US\$1 billion (13 percent of GDP).

331. An AP may be sold, conveyed in an estate, used as a down payment for access to low-cost housing, or as a loan guarantee. At the same time, by introducing such a significant amount of resources through transferable securities, APs will become one of the most important incentive for developing the securities market in Bolivia and, in consequence, an instrument that will facilitate access to credit universally.

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<sup>39</sup> This issue is addressed in greater detail in the strategic component on “Increasing the Security and Protection of the Poor.”

332. Since APs can be used as guarantees for microcredit (either by individuals or among various microenterprises or sole proprietorships), more democratized access to credit will be promoted. This will make possible a comparable increase in the possibilities for creating or expanding MSE's, particularly in rural areas given the difficulties that small producers in this sector have in providing guarantees.

### **Developing the productive capabilities of the poor**

333. Developing productive capabilities improves the living conditions of the population even as it ensures its income levels. To this end, the State should guarantee the provision of social services with the greatest social return. The relevance and quality of social services must be incentives for the population to receive returns on investing in health and education. Sufficiently habitable conditions and the availability of basic sanitation help to preserve human capital.

334. Despite the growing importance of the social sector, disbursements amount to 39 percent of the funds committed up to December 1999. The slow process of disbursing foreign funding is due to the absence of national counterpart funds, to problems with the compatibility of the procedures used by financing institutions, and to inefficiencies in the administration of some programs and projects.

335. To achieve this objective, specific policies will be implemented with respect to: (i) improving educational quality and access; (ii) enhancing health service conditions and access; and (iii) improving habitability.

**Box 5.5**

**Education, Health and Basic Sanitation,  
According to Dialogue Participants**

*“Before coming, we had our meeting to prioritize our needs: basic sanitation and education, because many children have no education or have to walk a long way to reach school.”*

*(Santos Zurita, Chairman of the Moro Moro Vigilance Committee, Dialogue 2000)*

*“We have prioritized health and education because I think that only with education can we get ahead.”*

*(Dick Dorado, Mayor of San Miguel, Dialogue 2000)*

*In the National Dialogue, it was agreed that improving services in education, health and basic sanitation generally requires: more infrastructure and equipment; skilled human resources; priority allocation of public funds; and strengthening the institutional status and management of the various public institutions involved in the activities of each sector.*

*To improve educational quality and access, the BPRS proposes to (i) transform the curriculum; (ii) transform the training and administrative system for teaching staff; (iii) promote planning and decentralized educational management at the municipal level with community participation; and (iv) strengthen the regulatory and supervisory power of the governing authority. To improve health services conditions and access, the BPRS proposes to (i) expand the health insurance system; (ii) control major transmissible diseases; and (iii) improve the quality and status of the population’s nutrition. To improve habitability, the BPRS proposes to (i) fund and improve the infrastructure; and (ii) institutionalize the basic sanitation and housing sector.*

**(i) Improving educational quality and access**

336. Education makes it possible to satisfy the population’s basic needs while increasing its productivity. Similarly, education opens the door to the labor market and enhances opportunities for future distribution of income. From a broader perspective, it helps to promote participation and social equity and to ensure the sustainability of development trends.

337. Strategic actions and the allocation of resources within the educational sector will be directed on a priority basis to the primary level<sup>40</sup> in accordance to the Political Constitution

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<sup>40</sup> The Educational Reform Law (1994) stipulates eight years for primary school.

of the State (CPE). In the medium term, emphasis will also be placed on early and secondary education, establishing learning horizons for children up to age 6 and coordinating the secondary school curriculum with the other levels and with the labor market. By the year 2002, the school curriculum will have been completely overhauled. This is expected to improve the quality of education and ensure that students remain in the school system.

338. Work training will make it possible to obtain short-term effects to the extent that it is linked to productive demand and to the generation of income. Therefore, adult literacy programs must be linked to work training, focusing on the economically active population, preferably women of child-bearing age. The development of work training must be driven by a joint effort of the State and the economy.

339. The reform of higher education will make it possible to have excellent public and private institutions that contribute to technological development and research. Subsidies in the public sector will be directed exclusively to the low-income population, promoting various policies to cover costs.

**Box 5.6**

**Advances and Challenges in Education**

*National Dialogue 2000 indicated the need to reduce literacy. It should be emphasized that the only way to definitively eradicate illiteracy is by educating all children. This makes primary and preschool education very important. According to studies and research, quality educational intervention at an early age allows children to do better in school because they develop better learning ability. In economic terms, this means savings for the State, in that it has been shown that educational intervention at the preschool level helps to reduce grade repeater and dropout rates in primary school. Indeed, results from the SIMECAL test do show that children who attended preschool programs perform better in primary school.*

*The Dialogue also suggested improving the quality of education in general, increasing the supply of technical training and providing work training programs that meet specific skill requirements for productive employment.*

*During the 1990s, enrollment rates in Bolivia improved substantially and disparities in enrollment patterns by gender have fallen, although disparities remain between rural and urban areas. The gross rate of primary school enrollment between 1990 and 1999 rose by 10 percentage points, exceeding 100 percent. This increase is explained by a higher allocation of public resources, the Educational Reform process, and the growing importance that society assigns to the education of its children.*

*However, the quality of education remains low. Only two-thirds of primary school students complete the sixth grade. In general, education in Bolivia is below the average for Latin America according to evaluations carried out by UNESCO on language and mathematics in the third and fourth grades of primary school.<sup>41</sup> Moreover, the dropout rate has remained practically constant since 1990 (falling from 6.8 percent to 6.7 percent), although the failure rate has fallen from 6.4 percent to 5.6 percent over the last 10 years.*

340. Four lines of action are considered in school education (preschool, primary, and secondary): (a) transforming the curriculum; (b) transforming the training and administrative system for teaching staff; (c) promoting planning and decentralized educational management at the municipal level with community participation; and (d) strengthening the regulatory and supervisory capacity of the governing authority.

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<sup>41</sup> World Bank, 1999.

*(a) Reforming the curriculum*

341. The implementation of the new curriculum redefining the institutional structure of the educational system based on the school and a reassessment of the teacher's role in society will be accelerated. The new curriculum is cross-cultural in recognition of the cultural diversity of Bolivian society, reflects educational needs, and meets the requirements of regional and national development. It recognizes students as individuals who build upon their own learning experience and establishes the bilingual method for those whose mother tongue is not Spanish.

342. The curriculum transformation begun in primary and preschool education will be promoted together with teacher training. Subsequently, this process will continue at the secondary level, where the design of the curriculum will be linked with primary and higher education, teaching the humanities as well as technical training (with the degree of mid-level technician), according to demand in the labor market and local needs.

343. Instructional materials and equipment consistent with the new curriculum will continue to be produced and distributed free of charge to the public schools, supporting the process of curriculum transformation. Educational resources centers will also be equipped and provided with materials.

*(b) Transforming the training and administrative system for teaching staff*

344. The new system for training preschool teachers will be strengthened. The transformation of this system began when public and private universities were contracted to administer the Advanced Teacher Training Institutes [Institutos Normales Superiores—INS] and implement the new curriculum under the proposed Educational Reform. In addition, the continuing education system for teachers will be organized through academic advisory programs already in operation and a network of universities and INSs offering various methods for in-service refresher courses for teachers.

345. A new system for administration of teaching personnel that fosters continuing education and better teacher performance will be promoted. This system involves a new form of compensation with monetary and nonmonetary incentives based on performance and results. It is expected that this system will reduce temporary teaching positions held by people without teacher training.<sup>42</sup> These policies presuppose a higher allocation of current spending for school service.

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<sup>42</sup> Between 1997 and 2000, temporary positions averaged about 26 percent nationally, with higher incidence in rural areas.

*(c) Promoting decentralization of municipal level educational management with community participation*

346. Implementation of Nuclear Education Projects (*Proyectos Educativos de Núcleo - PENs*) as a planning and academic tool will be accelerated. The design and implementation of PENs require the participation of directors, professors and parents and are tailored to the specific needs and problems of each educational unit.<sup>43</sup>

347. PENs must comprehensively address both academic needs and infrastructure and equipment needs in order to constantly improve the quality of each school. Resources will be allocated for school infrastructure, giving priority to areas with the highest density school-age population.

348. The power to administer,<sup>44</sup> supervise, and control human resources as well as funds for paying for staff services in education will be transferred to the Municipal Governments gradually, with technical assistance from the Ministry of Education, Culture and Sports (MECyD). To this end, the municipalities may voluntarily ask the Ministry to make this transfer effective during the maximum three-year period following the effective date of the Dialogue Law. After the three-year period, the transfer must be made.

349. To improve decentralized educational management, the Departmental and District Education Directorates will be strengthened by recruiting appropriate technical personnel and training them in the role they must play in technical training, information systems, administrative and control systems, evaluation and supervision. In addition, the necessary equipment will be provided.

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<sup>43</sup> A municipality's PENs make up the Municipal Education Program (PROME), which is part of the Municipal Development Plan (PDM). The MECyD provides technical assistance in the PEN and PROME design process.

<sup>44</sup> Proposal contained in the preliminary draft Dialogue Law currently under discussion with civil society.



**Box 5.7**

**Nuclear Educational Projects**

*Nuclear Educational Projects [Proyectos Educativos de Núcleo] are a management tool that allows the community around an educational center to make decisions, shoulder responsibilities, and suggest solutions for their schools' specific educational problems in order to improve educational quality and results. They have two components: pedagogical processes and infrastructure.*

*Improvements in infrastructure, materials supply, and pedagogical processes help to increase educational quality and continued attendance at school. The participation of parents through Educational Boards helps make responses more relevant to local needs and promotes social control.*

*Over time, the growing endowment of human capital helps to increase individual productivity and incomes, particularly among the poorest groups. In this way, opportunities are broadened and the population's quality of life is improved.*

(d) *Strengthening the regulatory and supervisory capacity of the governing authority*

350. MECyD staff will be incorporated into the Institutional Reform Program (PRI) to ensure the stability and professional quality of its officials.

351. Development of Education Information Systems (SIE) and the System for Measuring Quality in Education (SIMECAL) will continue. They ensure the availability of timely and reliable information as an essential instrument in policy design, follow-up and evaluation of the operation of the national educational system.

(e) *Other strategic actions*

*Technical and alternative education*

352. Adult Technical Education Programs (PETA Projects) will be implemented to target rural areas, transform Rural Normal Schools into Professional and Technical Training Institutes (rural IFPTs serving as “business incubators”), implement new plans and programs, improve the enrollment and teaching quality of Centers, Schools, and Institutes (CEIs) for alternative education, and adult literacy and basic education programs, with the objective of diversifying and improving the current supply, linking it to productive activities in the region where each is located.

353. New Technical and Agricultural Education Centers (CETAs) will be created at the national level, and the administrative organization of the Municipal Integrated Centers

(CIMs) will be promoted, including through the construction, refurbishing, and equipping in order to ensure their sustainability.

354. Efforts will be oriented toward strengthening the State's Technical Institutes in rural areas and the creation of new Professional and Technical Training Institutes in rural and marginalized areas, thereby enabling the local population to gain technical knowledge and comprehensive training in various fields and at various levels, the results of which will be reflected in the creation of focal points of growth in the rural and marginalized regions. In this connection, policies will be established for broadening enrollment to marginalized areas where the production sector's participation in strategic actions is of paramount importance.

#### *Higher education*

355. Improvements in higher education will be promoted through creation of a Higher Education Quality Improvement Fund [*Fondo de Mejoramiento de la Calidad—FOMCALIDAD*] and the National Council of Higher Education Accreditation [*Consejo Nacional de Acreditación de la Educación Superior—CONAES*]. The objective is to strengthen and improve the performance of public universities by seeking new mechanisms for allocating public resources based on the quality and internal efficiency of these institutions.

356. Private universities will have more transparent and responsible academic management based on regulation and accreditation mechanisms. In addition, the process of modernizing the institutional management of Higher Education will be initiated by means of the Initial Reform Project for the sector.

Matrix 5.6  
Matrix of Priority Actions and Policies  
Improving Educational Quality and Access

Strategic Action	Action Plan	Regulatory Instrument	Responsible Institution
Transform the curriculum	Broad application of the preschool, primary and secondary curriculum in all UEs.	-----	MECyD
	Equipping of UEs and installation and equipping of Pedagogical Resource Centers.	-----	MECyD
Transform the training and administrative system for teaching staff	Strengthening the INS and training for teachers and directors.	-----	MECyD
	Continued training of academic advisors.	-----	MECyD
	Implementation of the new administrative system for teaching staff, incorporating a teacher incentive program.	-----	MECyD
Promote planning and decentralized educational management at the municipal level with community participation	Training for officials of Departmental and District Services (SEDUCA) and Municipal Governments in planning, evaluation, information, administration and control systems.	-----	MECyD
	Equipping of offices in the District and Departmental Services (SEDUCA).	-----	MECyD
	Transfer to the Municipal Governments of responsibility for administering, supervising, and controlling human resources in the schools as well as the corresponding funds.	Approval of National Dialogue Law	Office of the Vice President – MECyD and Municipal Governments
Strengthen the regulatory and supervisory capacity of the governing authority	Strengthening of the Educational Information System.	-----	MECyD
	Development of the Educational Quality Measurement System (Promoting creation of an autonomous educational accreditation body).	-----	MECyD

(1) ----- Action that does not require a regulatory instrument or that already has regulations.

**(ii) Improving health services conditions and access**

357. Health is highly valued by society because the population as a whole benefits from it and because it helps to reduce poverty. Monitoring the health status of the population in order to preserve human capital and productivity is a public responsibility. In the case of the poorest members of society, health care should be a priority because the poor are at greater risk of becoming ill, their ability to create income depends almost entirely on physical labor and the financial cost of dealing with illness can be beyond their means.

358. Various programs are being implemented in the context of Health Reform. To ensure the timeliness of disbursements from such programs, the availability of local counterparts will be guaranteed to handle disbursements from international cooperation and establish a more flexible system with fewer conditionalities.

**Box 5.8**

**Advances and Challenges in Health**

*The National Dialogue 2000 established that health status is one of the most important aspects in building the population's capacities. Thus, actions that further the process of Health Reform must be given priority.*

*Infant mortality is 67 per 1000 live births, and is twice as high in households in the lowest quintile due to low vaccination coverage in poor households and the fact that they are less likely to receive institutional care for acute respiratory infections (ARIs) and acute diarrheal diseases (ADDs). Maternal mortality is 390 per 100,000 live births and is considerably higher in rural areas. The three endemic diseases that represent the highest burden of disease are Chagas' disease, malaria and tuberculosis. Chagas disease is responsible for 13 percent of deaths in people aged 15 to 75, and areas where the disease is spread cover 60 percent of the country. The prevalence of malaria is quite high (8 per 1,000 inhabitants by the year 2000). The incidence of tuberculosis shows a decline since 1990. However, it is among the highest in the region (113 per 100,000 inhabitants by 1999).*

*Public spending in health in Bolivia is very low and since 1990 has shown a decreasing trend in real terms. Per capita spending in 1995 was 8 dollars, below international recommendations that suggest a per capita investment of 12 dollars. Due to decentralization, the spending allocated to the Ministry of Health and Social Insurance (MSPS) has been cut drastically but has not been offset by an increase in funds allocated by the municipalities and prefectures.*

*The Health Reform being carried out in Bolivia is a process of structural changes in political and administrative terms. It seeks to achieve solidarity and universality in access to health services, in which the principles of participation and decentralization must go hand-in-hand with the concepts of equity, efficiency and quality. The principal objective of the Reform is to reduce maternal-child mortality rates and to control the major transmissible diseases.*

359. The priority of the BPRS in health coincides with the main objective of Health Reform: *to reduce maternal-child mortality rates and control the major endemic diseases.* Five courses of action were identified to achieve this objective: (a) efficient management of human resources; (b) expansion of the health insurance system; (c) control of transmissible diseases and strengthening of the epidemiological surveillance system; (d) improvement of

nutritional quality and status of the population; and (e) development of the cross-cultural approach in health. Matrix 5.7 describes the strategic actions given priority in the action plan, regulatory instruments and responsible institutions.

*(a) Ensuring efficient human resources management*

360. A priority measure of the Action Plan in health is to improve human resource management. The MSPS, in coordination with the Finance Ministry, will guarantee an adequate budget to provide the personnel needed to satisfy the population's needs, in accordance with resource allocation criteria such as population, epidemiological profile, or other criteria that give priority to rural areas, particularly remote population groups.

361. The power to administer, supervise and control human resources will be gradually transferred to municipal governments, with technical assistance from the MSPS. This process of "municipalization" of health requires that a legal framework be approved to expand the jurisdiction for administering human resources at the local level. This framework will be supported by the National Dialogue Law.

362. The health career stream<sup>45</sup> will be the principal instrument for improving the working conditions of health personnel through monetary and non-monetary incentives. Monetary incentives will focus on improving the salary scale for medical and paramedical personnel and non-monetary incentives include a guarantee of work stability and training programs that will guarantee greater results-based management capability for the benefit of the poor population.

*(b) Expanding the health insurance system*

363. In order to guarantee access to primary healthcare services, the MSPS is implementing Basic Health Insurance (SBS)<sup>46</sup> and Medical Insurance for Old Age (SMV).<sup>47</sup>

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<sup>45</sup> The health career stream is a human resource management policy that seeks to promote the development and advancement of Public Health System officials and employees based on potential, skill and merit in performance and the demands of the dynamic that the services create, ensuring job stability.

<sup>46</sup> The SBS is a package of 75 essential benefits for children under five years of age and mothers, including some benefits for the general population to cover sexually transmitted disease and prevalent endemic diseases such as malaria, tuberculosis and cholera. This program is a continuation of the National Maternity and Child Insurance (SNMN), implemented in 1994, and expands benefits for mothers and children as well as for the general population.

The coverage of these insurance plans will be expanded until Universal Health Coverage is established in the future.

364. The SBS will expand the basic package of benefits to cover comprehensive health services at the first two levels of care. On the other hand, the SMV will be adjusted based on a study to define a basket of basic benefits that will allow for its sustainability and make it possible to include the rural elderly.

365. The most important tool in moving toward Universal Health Insurance is the Health Law, which will initiate the expansion of coverage to the entire population by integrating the public subsystem with the social security system and introducing the separation of functions, in which the administrator of the system's resources will not be the service provider. Establishment of Universal Health Insurance involves substantial changes in terms of enrollment, financing and integration of the current system, in order to build a comprehensive Bolivian Health System. The draft Law will be approved after a process of national consultation involving the participation of users, workers, health managers, area professionals, system financiers and institutions providing services.

*(c) Improving control of transmissible diseases and strengthening the epidemiological surveillance system*

366. The actions of the Epidemiological Shield<sup>48</sup> program will be expanded to include other epidemic diseases such as Leishmaniasis, hemorrhagic fever and others. In the context of the BPRS, priority will be given to resources directed to expanding intervention in preventing and treating the major transmissible diseases.

367. The 5 percent contribution from Social Security revenues will be guaranteed for prevention programs to ensure the sustainability of the Expanded Immunizations Program II (PAI II), incorporating new vaccines, preventing diseases that cause infant mortality such as hepatitis B and *Haemophilus Influenzae* and expanding vaccination coverage.

368. The epidemiological surveillance system will be strengthened institutionally so that there will be strong decision-making capacity at local levels for controlling possible outbreaks. This will be done by implementing a network of laboratories, community training and a blood bank network.

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<sup>47</sup> The SMV covers people over the age of 60. This program has serious funding problems due to miscalculation of the premium for the basic benefits package for this age group that faces a higher frequency of illness.

<sup>48</sup> The Epidemiological Shield is one of the components of the Health Reform that seeks to control the major communicable diseases. The program's initial efforts focused on Chagas' disease, malaria and tuberculosis, due to the heavier burden of disease.

*(d) Improving the population's nutritional status*

369. MSPS leadership will be promoted in the design, implementation, evaluation and follow-up of nutritional policies, in coordination with other sectors involved, so as to fill the institutional vacuum in this area. This coordinating action will include NGOs that have made a cost-effective allocation of resources in providing nutritional benefits to the community.<sup>49</sup>

370. In order to improve the population's nutritional status, micronutrient programs (iodized salt, iron and vitamin A) carried out by the MSPS, which have had significant results such as the eradication of goiter, will be continued.

371. Literacy campaigns with nutritional components will be implemented in coordination with the MECyD for mothers and women of child-bearing age. In addition, nutritional subject matter designed to redirect family nutritional behavior will be incorporated in the primary and secondary curriculum. Education, information and communications programs will also be carried out for both health personnel and the general population in order to improve the diet of Bolivians, as well as the nutrition indexes (weight for age, height for age, weight for height).<sup>50</sup>

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<sup>49</sup> World Bank, 2000.

<sup>50</sup> The height for age indicator shows chronic malnutrition (delayed growth), weight for height measures recent malnutrition (due to recent illness or deterioration in nutrition) and weight for age measures overall malnutrition (summarizes the preceding measurements). According to ENDSA-98, almost 10 percent of children under the age of three have deficient weight for their age. This indicator is worse in the case of rural children whose mothers have no schooling.

**Box 5.9**

**Nutrition Situation**

*Bolivia has high rates of chronic malnutrition (height for age) and general malnutrition (weight for age). In 1998, close to 26 percent of children under the age of five had delayed growth and 9 percent were severely affected by this form of malnutrition. In children under the age of five, 9.5 percent showed general malnutrition.*

*Malnutrition is highest in rural areas, in the highland communities, and in the poorest departments. The causes of malnutrition are varied and are affected by both the limited supply of food leading to low quality intake and some factors associated with household resource allocations unfavorable to children, including lack of care from prenatal care on, diseases (especially diarrheal disease), low educational levels among mothers, precarious housing conditions, lack of access to basic sanitation and the population's general state of poverty.*

*Health programs are incorporating information on the benefits of breast-feeding as a way to reduce the risk of malnutrition. In addition, there are other programs such as the School Breakfast and the Breastfeeding Subsidy under social security that seek to prevent problems of malnutrition in children.*

372. Sexual and reproductive health programs will be continued to ensure longer birth spacing,<sup>51</sup> so as to avoid frequent pregnancies that increase the likelihood of a mother's having low birth weight babies.

373. Given how important water is to the population's nutritional status and considering that a sizable share of sanitation systems are frequently infected, regulatory measures will be implemented by the Basic Sanitation Superintendency to guarantee the consumption of clean and healthy water.

374. The Nutritional Vigilance System (SVEN) will be improved by strengthening SBS nutritional services for children under the age of five, e.g., by promoting and monitoring growth and by providing anemia treatment and oil supplements. Benefits to ensure adequate nutrition for pregnant women will be included to prevent low birth weight with iron sulphate supplements.

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<sup>51</sup> "Birth spacing" refers to the time elapsed between the birth of one child and the next for the same mother.



*(e) Implementing the cross-cultural approach in health*

375. In order to overcome cultural barriers in the delivery of health services, medical and paramedical personnel will be made aware of the importance of promoting respect for the practices and customs of native peoples in the health-illness process. This will be achieved through educational campaigns. This action will generate greater confidence in conventional medicine among these population groups, improving coverage for childbirth care and vaccination levels.

376. The “Health with Identity” program will be expanded. This program seeks to create a mixed care model that combines the virtues and benefits of traditional and conventional healthcare systems and draws upon successful experiences such as the Willaqkuna in Potosí. The consultation exercises associated with the National Dialogue have made it possible to develop similar projects in coordination with the Single Trade Union Confederation of Rural Workers of Bolivia (CSUTCB) and the native people of the east.

*(f) Other strategic actions*

377. Prioritized policy actions in the Action Plan must be accompanied by other actions such as the development of the services network and institutional strengthening.

*Developing the services network*

378. Developing the services network requires a policy on developing Bolivia’s hospitals and health facility networks.<sup>52</sup> It will be possible to strengthen the service network by regulating service delivery through a facility licensing and certification policy carried out by the MSPS. In addition, it is important to promote autonomous management of hospitals so as to introduce efficiency in service delivery.

379. Health Reform seeks to increase the use existing facilities by improving maternity centers, obstetrical networks and neonatal care centers, in order to cover the major obstetrical and neonatal risks and thus to hasten the decline in maternal-child mortality rates. Optimal use of the infrastructure means implementing referral and counter-referral systems<sup>53</sup> among primary care facilities (health centers and posts), secondary care facilities (basic hospitals)

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<sup>52</sup> There is evidence showing the impact that endowment of health infrastructure has on reducing infant mortality, e.g., the Social Investment Fund Evaluation (FIS). Therefore, it is important to continue the policy on staffing the health infrastructure to develop the services network.

<sup>53</sup> The referral and counter-referral system is based on transferring complex cases detected in primary care facilities to secondary level facilities and, when merited by the condition, referring to tertiary level or more complex facilities.

and tertiary care facilities (general hospitals and specialized institutes). It is thus unnecessary to endow tertiary level facilities in remote areas. In rural areas, far-flung populations will be served by mobile teams, without discarding the possibility of endow the primary care infrastructure.

380. The National Medications Program (PNM Bol) will be developed through the National Medications Auction and by ensuring the sustainability of the Revolving Medications Fund (FRM). This program will implement a series of standards and the system of sanctions for implementing the FRM. This action will support proper operation of the services network by ensuring that essential medications are available, and will contribute to improving the quality of medications in general.

*Institutional strengthening*

381. The challenge of meeting the goals of the BPRS requires a sectoral institutional strengthening process. To this end, training and technical assistance programs will be provided to the municipalities in order to guarantee effective and efficient transfer to the local level of jurisdiction for administering the health system. A system for municipal accreditation will be created. It will evaluate local capabilities so that new powers can be transferred to those municipalities that receive accreditation.

382. Management agreements between the MSPS and private sector facilities and social security will be expanded to contribute to results-based management and to provide incentives for meeting critical indicator goals and making better use of resources.

383. The Health Law will establish the new legal framework for the sector given that the Health Code fails to establish a new model of care based on universal benefits.

384. Information provided by the National Health Information System (SNIS) will be used to make the decision-making process more efficient and improve the health system's decision-making capacity. This system will enter a new phase in which it will improve the process of compiling and processing data and integrate the SVEN and social security subsystems. SNIS will be incorporated in the Health Status Surveillance and Analysis System, allowing for better ability to respond to possible disease outbreaks.

Matrix 5.7  
Matrix of Priority Actions and Policies  
Improving Health Conditions and Access

Strategic Action	Action Plan	Regulatory Instrument	Responsible Institution
Guarantee efficient management of human resources.	Increase human resources.	-----	MSPS and MH.
	Transfer of personnel administration to the municipalities.	Dialogue Law that will expand the jurisdiction of the municipalities in human resources management.	MSPS and municipal governments in charge of implementation.
	Development of the human resources incentive system.	D.S. creating the Health Career Stream.	MSPS, SEDES and Health Districts.
Expand the health insurance system.	Expansion and consolidation of Basic Health Insurance (SBS).	Ministerial Resolution of the SBS.	MSPS and municipal governments.
	Gradual implementation of Universal Health Insurance.	Proposed Health Law with single enrollment system.	MSPS, MH and National Congress in charge of ratification.
Improve control of communicable (transmissible??) diseases and strengthen the epidemiological surveillance system.	Implementation of Epidemiological Shield programs.	-----	MSPS, SEDES and Health Districts.
Improve the population's nutritional status.	Development of an information, education and communication systems for nutrition.	-----	MSPS.
Implement the cross-cultural approach in health.	Development and implementation of the Health with Identity program and incorporation of traditional medicine.	Standards for the implementation of cross-cultural health services.	MSPS, SEDES and municipal governments.

(1) ----- Action that does not require a regulatory instrument or that already has regulations.

**(iii) Improving habitability conditions: basic sanitation and housing**

385. Improvements in housing quality and access to drinkable water and basic sanitation services have direct effects on the population's health status and the future productivity of workers. Diseases reduce productive capabilities and income levels and increase poverty.

386. Providing basic services allows the elimination of serious illnesses, vectors and transmissible diseases such as malaria, Chagas' disease and Leishmaniasis that are the major causes of health problems for the most vulnerable groups and cause high infant mortality and illness rates.

**Box 5.10**

**Housing and Basic Sanitation in Bolivia**

*The National Dialogue 2000 gave priority to implementing programs to provide and improve housing, build basic sanitation systems (latrines) and improve the sector's institutional capacity.*

*According to the 1992 CNPV, coverage of drinkable water services in urban areas reached 88.7 percent of households, although only 74.8 percent of these had a household connection. In rural areas, water coverage was 24.9 percent, of which only 17.2 percent had a household connection. In addition, the coverage of basic sanitation services was even lower, reaching 62.8 percent of households in urban areas and 17.4 percent in rural areas. The quantitative shortfall in housing at the national level reached approximately 235,000 dwellings, and was higher in urban areas. Fifty-nine percent of dwellings were overcrowded and 43 percent had structural defects and some defective construction materials.*

*One of the major causes for low coverage is an inadequate level of investment and public spending allocated to the basic sanitation sector. In particular, it should be emphasized that public investments in the sector do not include the recurring expense items needed for basic sanitation systems to achieve sustainability. During the period 1980-1994, public spending on basic sanitation as a percentage of GDP averaged 0.05 percent. However, during the period 1995-1999, this indicator shows average growth of 2.1 percent.*

*The new National Housing Policy (NPV) implemented in early 1998 seeks to turn this situation around. The National Program of Housing Subsidies (PNSV) was created for this purpose and is improving housing and providing housing solutions for lower income population groups.*

387. The MVSBS is responsible for formulating national policies and plans aimed at expanding and improving the quality of basic sanitation services within the framework of the National Compensatory Policy (PNC),<sup>54</sup> which reaffirms this standardizing and regulatory

<sup>54</sup> Chapter VI includes an in-depth analysis of the PNC.

role. The MVSBS will, in keeping with the priority sectors identified under the Dialogue Law, define the menu of eligible projects proposed by the municipalities. For its part, the Superintendency of Basic Sanitation is responsible for regulating basic sanitation services providers and the public water supply.

388. Under this approach, the local level, through the municipalities, assumes responsibility for moving forward with the execution of basic sanitation projects that will be financed by the National Productive and Social Investment Fund (FPS). The municipalities will be responsible for calling for bids, awarding contracts, and ensuring the execution and auditing of these projects.

389. At the departmental level, the prefectures fulfill a linkage and coordination role between the local level and central level, through technical assistance support to the municipalities, the conduct of sanitary education programs, and surveillance over the execution of basic sanitation infrastructure works.

390. Policy measures designed to improve habitability include: (a) providing and improving infrastructure and institutionalization in the basic sanitation sector; and (b) improving housing infrastructure and institutionalization in the housing sector.

*(a) Providing and improving infrastructure and strengthening institutionalization in the basic sanitation sector*

391. The following actions will be given priority to provide and improve the infrastructure and institutional capacity of the basic sanitation sector: promoting the construction of drinkable water and sanitary sewer systems in peripheral urban and rural areas; constructing wastewater and solid waste treatment plants; providing technical assistance to small municipalities; and strengthening the sector institutionally.

392. In order to reverse the shortfall in sanitation services in rural areas, the supply of drinkable water and provision of latrines, cesspools and septic tanks will be promoted. In peripheral urban areas, sanitary sewer system networks and infrastructure for eliminating solid wastes such as sanitary landfills will be built.

393. To make water and basic sanitation services sustainable, technical assistance programs for the weakest municipalities will be strengthened and sanitary education programs will be promoted in beneficiary communities. Greater community participation will be promoted for self-construction of sanitation and water supply systems as will greater private sector participation in operating such systems.

394. To improve the sector's institutional capacity, the sector's legal and strategic framework will be consolidated. In terms of legislation, approval of the regulations for Law 2066 on Reforming Drinkable Water and Sanitary Sewer Services will be expedited and the Solid Waste Law and sanitary sewer system regulations will be approved. This will mean comprehensive regulation of solid waste and wastewater treatment.

395. The MVSBB will be institutionalized and the management capability of the most depressed rural municipalities will be strengthened through technical assistance in the development of pre-investment and investment studies. Under the Institutional Reform Program (PRI), the qualifications of technical, administrative and executive personnel in the sector will be raised through continuing education programs and human resources training.

396. The decentralization process will be consolidated through establishment of the Basic Sanitation Network, which will develop an organizational structure with the participation of all institutions involved in the field and will also make it possible to implement the sectoral information and monitoring system for basic sanitation systems at the municipal and community levels.

397. To increase efficiency in achieving goals and objectives, mechanisms for managing, monitoring and evaluating sectoral plans and strategies and inter-sectoral coordinating agencies will be implemented that are consistent with national, departmental and municipal development plans.

398. Other measures that will help in achieving the proposed objectives include the participation of women leaders in the design, execution and evaluation of sanitary education projects and development of inter-institutional agreements between municipalities and prefectures to ensure coordinated preparation of basic sanitation plans and projects.

*(b) Improving housing infrastructure and strengthening housing sector institutions*

399. To improve infrastructure and institutional capacity in the housing sector, and to increase access to resources for financing housing, the following actions will be given priority: construction and improvement of low-cost housing in rural communities; reform of the regulatory and institutional framework of the sector; and development of the secondary market for mortgage credit.

**Box 5.11**

**New National Housing and Basic Services Policy**

*The MVSBS has been implementing the National Housing Policy since early 1998. It has three pillars: (i) the National Program of Housing Subsidies (PNSV); (ii) the Program for the Risk Prevention and Mitigation, Emergency Management, and Extreme Poverty; and (iii) Development of the Secondary Credit Market.*

*In turn, the PNSV has three subcomponents: (i) by end-2003 the Neighborhood Improvement Subprogram will invest US\$48.1 million and will benefit more than 80 neighborhoods in 26 municipalities through comprehensive packages of projects that include clearing property titles; (ii) by 2005 the Housing Improvement in Endemic Zones Subprogram will allocate US\$33 million to improving 93,000 housing units in rural areas; and (iii) the Direct Subsidy Subprogram will invest US\$11.5 million to channel direct subsidies to low-income social groups for the improvement, construction, or purchase of housing, granting some 6,050 subsidies benefiting approximately 30,250 inhabitants.*

*The Risk Prevention and Mitigation and Emergency Management program will invest US\$64.2 million to re-establish minimum habitability standards to households affected by national disasters and to provide solidarity shelter to indigents through the creation of Comprehensive Social Productive Centers (CINPROS).*

*Finally, the Secondary Market Development program includes: (i) the Legal and Institutional Framework Reform to update the sector's technical and administrative regulations, with a prominent role played by the Office for the Rights and Obligations of Owners and Tenants (ODOPIs); and (ii) the Reform of the Financial System, directed toward developing the secondary mortgage market to channel long-term resources from domestic and external savings.*

400. Implementing low-cost housing programs in rural municipalities will help to improve habitability in the short term. In this respect, the results of the current subsidy system will be evaluated to correct possible regressive effects in that fiscal instrument. Low-cost housing programs will be implemented exclusively to address critical situations such as groups in extreme poverty, populations with endemic diseases or municipalities with low technical capacity.

401. In addition to improving the institutional capacity of the MVSBS, the Urban and Rural Property Rights and Property Registry will be institutionalized. The qualifications of technical, administrative and executive personnel in sectoral institutions will be raised through continuing education systems and human resources training. In terms of law, approval of the Housing Law and the Tenant's Law will be accelerated and administrative procedures will be established for housing evictions.

402. The management capabilities of the most depressed rural municipalities will be strengthened through professional assistance in the development of pre-investment and investment studies for low-cost housing projects. Operating and administrative procedures will be simplified to make municipal management more efficient. Inter-institutional agreements between prefectures and municipalities will be implemented to ensure coordinated improvement in the quality of housing plans, programs and projects.

403. To improve conditions for access to low-cost housing, measures will be implemented to improve the operation of the real estate market through legal clearing of title to urban and rural lands, the incorporation of lots in the urban market for housing purposes, the reform of regulations on urban planning, property rights, land registry arrangements, rentals, expropriations and preemptive land purchase rights for municipalities.

404. Other measures that will contribute to achieving the proposed goals include implementation of programs for self-construction of housing units in the interest of society. In order to channel resources for housing in rural areas, incentives will be established for incorporating Private Development Institutions (IPDSs) in the national financial system as these entities have financial technologies suitable to low-income social strata.



**Matrix 5.8**  
**Matrix of Priority Actions and Policies**  
**Improving Habitability: Basic Sanitation and Housing**

Strategic Action	Action Plan	Regulatory Instrument	Responsible Institution
Provide and improve infrastructure and strengthen institutional capacity in the basic sanitation sector.	Construction of drinkable water and sanitary sewer systems in peripheral urban and rural areas.	Approval of Regulations for Law No. 2066 Reforming Drinkable Water and Sanitary Sewer System Services. Development of Ten-Year Basic Sanitation Plan.	MVSB (management), Municipalities (implementation), Natl. Congress. (regulations)
	Construction of wastewater and solid waste treatment plants.	Approval of the Solid Waste Law and Regulations on Rainwater Drainage.	MVSB (management), Municipalities (implementation), Natl. Congress. (regulations).
	Development of technical assistance programs on pre-investment and investment feasibility studies for small municipalities.	-----	MVSB (management-coordination), DUF (financing and supervision).
	Development of an institutional strengthening program for the MVSB / Human resources training programs.	-----	MVSB PRI Office of the Vice President
Increase and improve housing infrastructure and strengthen the institutional capacity of the housing sector.	Construction and improvement of low-cost dwellings in rural municipalities.	-----	MVSB GM
	Institutionalization of the MVSB, modernization of the system for the Urban and Rural Registry of Property Rights and Land Registry / Human resources training.	Operating regulations of the Direct Housing Subsidy and Housing Improvement in Endemic Zones programs. Operating regulations of the Comprehensive Social Productivity Centers (CINPROS).	National Congress responsible for regulations and institutionalization.
	Design of new regulations on real property rights, land registry, rentals, expropriations, Law on Preemptive Purchase Rights for Municipalities.	Updating of regulations on real property rights and registration	National Congress / INRA.

(1) -----Action that does not require a regulatory instrument or that already has regulations.

### **Increasing security and protection for the poor**

405. The National Dialogue identified risk factors that often reduce family income. Particular note was made of job insecurity, water scarcity, and the lack of defined property rights.

406. The Bolivian economy suffered a number of external shocks, which in 1992, 1998, and 1999 slowed the economy and affected the employment levels and income of the poor, increasing their levels of risk. Some sectors of the economy contracted, which particularly affected small producers, artisans, and independent workers in the commercial, transportation, and services sectors.

407. In many regions, the natural disasters of recent years resulted in the deterioration or destruction of the road infrastructure, harmed small farmers by destroying production and assets, and in some cases resulted in temporary migration.

408. The introduction of this component highlighted the need to provide action mechanisms to provide social support and help households help themselves to manage individual and social risks. Although the more extensive use of social support programs is quite unlikely because of the widespread poverty in Bolivia and the high cost of supporting conventional protection programs, they should be regarded as policy instruments that can help reduce and manage the risk to which vulnerable groups are exposed.

409. Within this component there are four courses of action: (i) social protection programs targeting the vulnerable groups; (ii) comprehensive child care; (iii) risk prevention, disaster management and emergency programs; and (iv) legal security in the holding of assets through clearing of land titles and urban property rights and the definition of a legal and institutional framework for access to and the use of natural resources.

#### ***(i) Expanding social protection programs***

410. Bolivia has institutions for protecting the population, particularly children, through prevention programs in health, old-age insurance, regulations against domestic violence, and other actions for vulnerable population groups. This group of actions also includes health insurance systems through pension funds and systems benefiting the dependent taxpaying population which are not necessarily in a poverty situation.

411. Other protection programs which transfer resources and increase capacity target specific population groups such as the elderly, children, and adolescents. The BPRS establishes the need to maintain these programs, especially for population groups where there is considerable poverty.

##### ***(a) The elderly***

412. Without being set up as a targeted protection system, monetary transfers to older adults protect significant segments of the vulnerable population. The “Bolivida” is a

monetary transfer financed with funds from the capitalization of public companies. It is regulated by the Law on Property and Cooperative Credit (PCP) and grants about US\$60 each year per beneficiary over the age of 65 recorded in the Electoral Roll. This program benefits approximately 300,000 elderly. In addition, registering to vote gives the population as a whole and its poorest members in particular increased opportunities to participate and to exercise their citizenship.

413. Consideration is being given to implementing the National Seniors Plan so that the elderly will become targets of development, with full exercise of their rights as citizens. The Institutional Network of Seniors' organizations will be set up and strengthened. Public awareness will be increased so that conditions can be created to permit healthy and active aging without any type of discrimination, and the Seniors Law will be promoted to introduce socio-educational programs for the elderly which comprehensively address various aspects of daily life and develop productive individuals.

*(b) Childhood and adolescence*

414. Priority will be given to the right to education and protection against economic exploitation and against any work characterized as dangerous. For this purpose, actions will be coordinated between the Vice Ministry of Gender, Generational and Family Matters and the Social Management Units of the prefectures<sup>55</sup> as well as the Municipal Ombudsperson's Offices, so that efforts will be combined to approve and implement the National Plan for Gradual Eradication of Child Labor.<sup>56</sup>

415. Approximately 200,000 children will be registered with a birth certificate and 180 Municipal Ombudsperson's Offices for Children and Adolescents will be set up to promote a culture that treats children well.

416. The living conditions of children and adolescents will be improved through a 50 percent increase in the current coverage of the SBS and the National Comprehensive Health Care Program for adolescents.

417. To reduce the mistreatment of children and adolescents, the National Plan against Mistreatment of Children and Adolescents will be approved and implemented. Its purpose is to reduce rates of violence by promoting and developing detection, prevention and treatment strategies, with the participation of State and civil society institutions.<sup>57</sup> In addition, the Institutional Network to Deal with Mistreatment of Children and Adolescents will be set up at the national level.

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<sup>55</sup> Especially the departments of La Paz, Cochabamba, and Santa Cruz.

<sup>56</sup> For the population between the ages of 6 and 14.

<sup>57</sup> Issues of domestic violence against women will be described later under gender policy.

418. Programs will be created for children and adolescents to reduce high rates of mistreatment, abandonment, drug addiction, alcoholism, prostitution, job exploitation and other factors that can keep children and adolescents from fully exercising their rights, affecting their health and overall development.

*(c) Food security*

419. Food security exists when everyone always has physical and economic access to a sufficient amount of food to carry on a healthy and productive life.<sup>58</sup> Food security this encompasses a broad range of policies, including income creation, increasing the production and improving the quality of food and of the Bolivian diet.

420. In the Strategy, specific policies are proposed for the productive aspects and for incomes, health, and education in the opportunity pillar and the development of productive capacity pillar. To complement the above, the participation of NGOs in implementing food security programs will be regulated. The design and execution of such programs must be consistent with regional productive potential and local knowledge, but should also promote activities that have a possibility of being economically sustainable.

421. During the past five years, actions to promote rural development have been supported by external financial initiatives that were broad in scope, such as the Program in Support of Food Security (PASA). However, the impact has been limited and bottlenecks have been identified in the process of qualifying projects and transferring resources to the executing bodies (municipalities, prefectures, and other private institutions implementing microcredit programs).

422. The association of resources in programs such as PASA should be adapted to the priorities set forth in the Strategy regarding rural development. In addition, an effort will be made to make the current project qualification and resource transfer arrangements compatible with the new guidelines established for the policy on public investment resource allocation, so as to make the arrangements more flexible.<sup>59</sup>

*(ii) Improving comprehensive child care*

423. Investment in the childhood care and development will increase the capacities and living conditions of the poorest population. Timely attention to children under the age of six

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<sup>58</sup> World Food Summit (Rome, 1996).

<sup>59</sup> Project execution of the PASA began in 1997. The Program considered the allocation of 59 million euro for investment projects and 21 million euro for microcredit and municipal capacity building projects. By December 2000 some US\$19.4 million in projects had been executed under the investment component.

and intrinsic benefits<sup>60</sup> mean a savings in the provision of health services and education as a result of decreased demand for medical care and lower grade repetition and dropout rates. Early investment helps in achieving greater equity, improving conditions and opportunities for the poor.

424. Comprehensive childcare actions, which include care, education, health and nutrition, help provide early stimulation for children. A sustained long-term communication strategy will be necessary to ensure effectiveness in this area.

425. The search for alternative models of direct and indirect care will provide incentives for the participation of civil society and international cooperation in sustaining, implementing and expanding childcare programs. The combination of financing sources, particularly for direct care, will be important in view of State limitations on making fixed investments and the expenses involved in implementing these services. Investment in comprehensive childcare programs is justified given the high social return that economic development ensures.

426. Decentralization will be promoted at the municipal level as will citizen participation in the management of programs caring for children. The resources of the TGN will be used to co-finance programs of this type and make them sustainable. The addition of actions in education and health will also contribute to care for children, particularly with respect to protecting and supplementing early education.

***(iii) Developing risk prevention, disaster and emergency management programs***

427. Owing to geographic conditions and the characteristics of its agricultural production activities (widespread dry farming), the country has repeatedly suffered the impact of the El Niño climatic phenomenon, and in the last decade from the associated phenomenon known as La Niña. These effects have significant repercussions on rural productive activity and on the basic infrastructure for same (road network, irrigation systems, and so forth). Under the coordination of the National Council for Risk Reduction and Disaster/Emergency Management (CONARADE), Prefectures, Municipal Governments and regional agencies will formulate and implement policies, plans, programs and projects to carry out the reconstruction, reactivation and economic recovery of productive processes in areas affected by disasters.

***(a) Natural disasters and emergencies***

428. The Law on Risk Reduction and Disaster Management approved by the Legislative Branch in October 2000 will be implemented. The fundamental aim of this law is to regulate all State activities in the area of risk reduction and managing disasters and/or emergencies,

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<sup>60</sup> Refers to a set of acquired abilities.

establish an adequate and efficient institutional structure (together with civil society) that will make it possible to reduce the risks to Bolivia's social and economic structures in the event of disasters and/or emergencies, and to respond in a timely and effective way to such events caused by natural disasters, by technology, or by man.

429. The National System for Risk Reduction and Disaster Management (SISRADE) will be made up of the National Council for Risk Reduction and Disaster and Emergency Management (CONARADE) as the top decision making and coordination body, and all the other public, private, and civil society institutions associated with risk reduction and disaster and emergency management. Under the coordination of the CONARADE, prefectures, municipal governments, and regional agencies will formulate and implement policies, plans, programs, and projects to carry out the reconstruction, reactivation, and economic recovery of productive processes in areas affected by disasters.

430. The Ministry of National Defense will be the agency charged with carrying out actions in favor of areas affected by disasters, while the planning and prevention work will be carried out under the coordination of the Ministry of Sustainable Development and Planning. Prefectures and municipalities will include in their Annual Operation Programming Exercises (POAs) and budgets the needed resources for reducing risks as well as counterpart funds (means-tested) for rehabilitation, rebuilding and economic reactivation of production arrangements damaged by the disaster situations they face.

*(b) Emergency employment*

431. Recently underway are actions designed to create urban infrastructure (maintaining or improving roads and public works) as a highly effective mechanism for creating emergency or temporary employment, particularly labor-intensive activities.

**Box 5.12**

**Intensive Employment Program (PIE)**

*The Economic Recovery Program (PRE) has suggested implementing the Intensive Employment Program (PIE). The purpose of this program is to generate employment for unskilled labor currently unemployed and located in urban and peripheral urban areas in Bolivia's various departments.*

*The program currently has US\$20 million, of which US\$8 million comes from the Telecommunications Fund and US\$12 million comes from international cooperation. Administration is entrusted to the FNDR. The PIE is creating employment in the cities of El Alto, Cochabamba and La Paz. It is estimated that a total of 40,000 direct jobs and 12,000 indirect jobs will be created in a period of 6 to 8 months.*

*(iv) Guaranteeing the legal security of assets*

*(a) Land*

432. The distribution of land in Bolivia is highly unequal, and the legal security granted by the State in respect of land has been called into serious question. Promulgation of the INRA Law in 1996 was aimed at dealing both with unequal access to land and legal insecurity with respect to land tenure. Initially a process of regularizing the titles to all rural land will be carried out by 2006, following which mechanisms for redistributing vacant land, identified by means of the regularization process (reversion and/or expropriation) will be implemented. Properties will be titled and recorded in a national registry of rural property.

433. In view of the limitations of, and delays in building up, the institutional and regulatory structure required by the INRA law, in September 2000, in the context of the social conflicts occurring in the country, the government undertook to revise and modify this standard, a process being carried out with the participation of all sectors and agents involved.

434. The BPRS ratifies fulfillment of the economic and social function of land so as to guarantee the rate to agricultural land ownership and the redistribution of government-owned lands, preferably by allocating them exclusively in favor of small farmer communities, indigenous and native peoples and communities that hold no land or insufficient land, and in accordance with the capacity for greater use of the land. In addition, mechanisms will be identified to guarantee that the government agencies responsible for the land tenure regularization process conduct an effective review of dual ownership situations, properties which exceed the surface areas permitted under the law, and other conditions relating to the allocation of government lands prior to the regularization.

435. The BPRS further considers it necessary to strengthen and improve the existing institutional framework. In respect of land titling and registration, it is planned to reduce the titling and property rights registration procedures affecting land by taking steps to merge the physical and legal registration of property. The National Rural Property Registry System will be institutionalized. Recording information in this system, to be regulated through the INRA, will become compulsory.

436. The institutional capacity of other agencies involved in various stages of the title regularization process, such as the Agrarian Superintendency and the Military Geography Institute (IGM), will be strengthened. To bolster the institutional capacities of the INRA and other agrarian agencies, it will be necessary to build technical and legal INRA units at the national and departmental level.

*(b) Water*

437. The water resource is a scarce social good which is fundamental to survival and to the development of the urban and rural population. As it is not a renewable resource, it is

necessary that the State and society take a long-term view when determining and promoting unrestricted access to water, and instead should try to optimize its use. Bolivia has neither a comprehensive institutional arrangement nor a comprehensive regulatory framework that might make it possible to observe these principles and optimize the use of water.

438. Consequently, the BPRS will promote a consensus-building process with civil society, particularly the indigenous, small farmer, and settler sectors which hold consuetudinary rights to the use of water resources in rural areas, with a view to drawing up a specific regulation on water resources which establishes both the rights and obligations of the entire population, as an institutional framework that is recognized and accepted by the State and civil society.

439. The regulation will recognize that the water resource is originally the domain of the State, but will also acknowledge the customary rights of access and use by indigenous peoples, small farmers, and settlers. In particular, account will be taken of the existing local mechanisms for conflict resolution. The institutional framework will use interdepartmental “basins” as a reference point, and it is within this framework that the technical, rights recognition and allocation, and conflict resolution responsibilities will be concentrated. In addition, the irrigation and micro-irrigation infrastructure programs envisioned under the BPRS will enable rural populations, which currently hold rights to this resource, to optimize its use.

*(c) Urban property registry*

440. Securing title to urban property is a fundamental step in consolidating ownership and legal security in the holding of assets. Poor people in urban areas will benefit to the extent that they can tolerate fluctuations in their incomes by using their own assets.

441. The Urban Property Registry system will be strengthened, particularly in cities such as El Alto, which has a high number of poor with potential for creating economic alternatives through financial markets. It will be important to simplify and modernize administrative and judicial procedures governing transactions for the purchase and sale and rental of housing, including procedures for housing removals and evictions.

442. Among other benefits to the community, the existence of a reliable registry system for movable and immovable assets and a transparent record of the market value of real estate transactions will make it possible to expand the tax base. Thus, municipalities will have greater resources and will be able to increase allocations for local projects.



Matrix 5.9  
Matrix of Priority Actions and Policies  
Increasing Security and Protection for the Poor

Strategic Action	Action Plan	Regulatory Instrument	Responsible Institution
Expand Social Protection Programs	Carry out the transfer of funds to people older than 65 years of age.	-----	SPVS/ MH
	Expand health programs for the elderly.	-----	MDSM
	Improve and expand programs caring for children and adolescents.	-----	MDSM/ municipalities
Improve Comprehensive Child Care	Expand and consolidate Child Care Programs (education, health, and nutrition).	-----	Ministry of the President 1/ municipalities
Develop Programs for Preventing and Managing Disasters and Emergencies	Implement and supplement the Law on Risk Reduction and Disaster Management (Law 2140). Develop Emergency Employment Programs.	-----	Ministry of Defense, Ministry of Sustainable Development and Planning, Ministry of Finance, Ministry of Labor, prefectures, municipalities
Guarantee Legal Security of access, holding, or use of assets	Consensus and implementation of amendments to the INRA Law. Strengthened institutional framework. Revised INRA Law.	Amended INRA Law and implementing regulations.	National Congress, INRA, MACPIO, MAGDB
	Modernization of urban property registry.	-----	MDSP, Urban municipalities
	Consensus-based drafting with civil society of a regulation that establishes the principles for access to and use of the water resource and the institutional framework for its management and control.	-----	MDSP

----- Action that does not require a regulatory instrument or that already has regulations.

1/ At present, the Program of Care for Boys and Girls Younger than 6 (PAN) is responsible for providing these services.

### **Increasing societal participation and integration**

443. In order to reduce poverty, policies are needed to promote participation, organization, citizenship<sup>61</sup> and social integration based on the interests of the State and the poor. Reducing social exclusion means that the poor will have greater opportunities to have their demands and needs met, to satisfy their basic needs, gain skills, improve social control, band together to form new social networks, and increase their incomes and quality of life.

#### **Box 5.13**

##### **Social Exclusion and Poverty**

*Reducing social exclusion means giving poor communities the power to make decisions, helping them to organize in defense of their interests, transparency in decision-making and providing an accounting of the use of resources. According to ECLAC,<sup>62</sup> reducing exclusion means enforcing and guaranteeing everyone's individual and political rights, promoting the effectiveness of people's economic, political, social and cultural rights to the extent of the society's abilities, and strengthening and developing society's ability to take up these challenges itself through active participation by all sectors in society.*

*Social exclusion creates and reinforces poverty. Therefore, there is a need for policies designed to reduce social exclusion, i.e., measures that promote participation, organization, citizenship and social integration based on the interests of the State and the poor. In this way, they will have greater opportunities, can have their demands and needs met, can satisfy their basic needs, develop more and better skills, improve social control, band together to form new and larger social networks and improve their incomes and quality of life (greater human development).*

*As indicated in National Dialogue 2000, social exclusion was seen as gender and ethnic discrimination, limiting the exercise of rights by citizens and leading to limited participation in collective decisions.*

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<sup>61</sup> The term *citizenship* is defined as “a reciprocal commitment between government and individuals.” The former must respect individual autonomy, allow and promote participation in political life and provide, to the extent that development permits, opportunities for social well-being and productive employment. The latter must exercise their ability to exert pressure so that the government will fulfill those commitments but must in turn contribute by participating in public life, making contributions to enrich it. (ECLAC 2000).

<sup>62</sup> ECLAC 2000.

444. Expanding citizenship primarily means creating opportunities for the poor to participate in public decision-making, to exercise their rights and utilize their social and political capacities (*empowerment*) as key players in solving their own problems of poverty. Reducing poverty in terms of income and providing access to basic public services for the poor are elements in the expansion of this citizenship.

445. Bolivian society has abundant social capital<sup>63</sup> although it is not usually valued or utilized when public policies are defined and implemented.<sup>64</sup> The barriers that limit this potential are related to lack of trust in State institutions (at the central, departmental and municipal levels) and among the participants in civil society, and increasingly larger economic and social disparities (e.g., in income, in access to basic services, education and health) that increase exclusion and social marginalization.

446. Emphasis should be placed on the complementary nature of actions to expand participation and empower the poor and traditional policies to expand economic opportunities and create educational and health capabilities. The impact and effectiveness of many public policies in this area depend on the degree of participation by the poor and utilization of their capacities.

447. Two lines of action are suggested: i) supporting and training for *citizen organization and participation*; and ii) *reducing inequities and barriers* based on ethnic discrimination.

***(i) Supporting and training for citizen organization and participation***

448. Popular Participation will support efforts for citizen organization and involvement. To consolidate this process, municipal governments will be strengthened through additional human resources training. Dissemination campaigns will focus on the scope and results of Popular Participation and Administrative Decentralization. The financial resources directed to further this process will take into account local projects, priorities and objectives so as not to detract from participatory planning processes.

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<sup>63</sup> Social capital is understood as those characteristics of social organizations, e.g., standards, trust and social networks, that can improve the efficiency of society, facilitating coordinated and cooperative actions among peoples and communities.

<sup>64</sup> Various studies (Durstun 1999, Evans 1997, Brown and Asham 1996) have shown the significant possibilities for the contribution of social capital to economic and social development. Integrating this element in the design of poverty reduction policies serves the two-fold purpose of overcoming the limitations of strategies that ignore this factor and above all using this potential development factor appropriately. In many cases, social capital is one of the few assets that the poorest populations can utilize. Thus, taking social capital into account helps to put people and their capabilities at the center of development efforts.

449. Social control and citizen participation will be promoted. At the local level, Consultative Committees will be set up in each municipality to support the work of the Vigilance Committees (CV). Other functional, territorial organizations (of producers, women, small farmers, etc.) that are representative of the municipality will be incorporated in the mechanisms for participation, consultation, and social control. Policies will be promoted to link projects to improve the quality of social services or rural development and the promotion of citizen participation.<sup>65</sup> At the departmental level, changes in the composition of the Departmental Councils are being considered with a view to increasing their accountability and representativeness.

450. To avoid efforts dispersion and make use of scale economies, the formation of new participatory and decision-making entities such as the *mancomunidades* will be promoted.<sup>66</sup> For this purpose, organizational strengthening programs will be carried out in information management for the social and economic actors who are potential participants in these activities. The *mancomunidades* will involve all the economic and social actors in each region. They will be strengthened through greater information, technical assistance and opportunities for accessing co-financing<sup>67</sup> together with dissemination of successful coordination models and practices.

451. A national institutional strengthening framework will be established to streamline and organize supply and demand in technical assistance and training on the part of municipal governments. This measure seeks to achieve greater coverage of all municipalities and community organizations, clearly defining the responsibilities of public and private actors and international cooperation.

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<sup>65</sup> This option for achieving the involvement of poor population groups is important for two reasons: on the one hand, it reflects specific needs for improving the quality of services, their sustainability or possible impact; on the other, it is a tangible form of participation, with clear objectives and results that people can see.

<sup>66</sup> *Mancomunidades* are associations of municipalities that join together based on certain common development objectives

<sup>67</sup> The subject of *mancomunidades* has been promoted when discussing the need to strengthen municipal planning processes, the association of municipalities, especially the smallest and poorest that might not be viable individually, and isolated and circumstantial pressures on specific programs and projects. This effort could take into account factors relating to geography and natural resources, e.g., river basins, reserves, homogeneous areas, economic base, sociocultural aspects such as ethnic groups, indigenous communes, accessibility, urban-rural relationships, etc., as well as sectoral proposals regarding infrastructure networks and economic and social services (for example, health, education, and road districts, etc.).

Matrix 5.10  
Matrix of Priority Actions and Policies  
Supporting and Training in Citizen Organization and Participation

Strategic Actions	Action Plan	Regulatory Instrument (1)	Institution Responsible
Accelerate municipal strengthening	Implementation and improvement of strengthening and technical assistance programs for municipal governments .	-----	VPEPP – MH
Promote Popular Participation	Conducting dissemination campaigns on the scope and results of Popular Participation and Administrative Decentralization.	-----	VPEPP
Improve Community participation mechanisms	Formation of Consultative Committees in each municipality and changes in the composition of Departmental Councils..	Approval of the Dialogue Law	Office of the Vice President – municipal governments
	Promotion and creation of incentives for setting up <i>mancomunidades</i> .	-----	VPEPP
	Incorporation of functional organizations in coordination and social control mechanisms.	-----	VPEPP
	Development of programs to support the operational work of Vigilance Committees and Basic Territorial Organizations.	-----	VPEPP – municipal governments
Establish the National Framework for strengthening	Streamlining and ordering of supply and demand in technical assistance and training for municipal governments.	-----	VPEPP
Train the citizenry	Development of support and training programs for participation – Training System for Popular Participation.	-----	VPEPP

(1) -----Action that does not require a regulatory instrument or that already has regulations.

***(ii) Reducing inequities and barriers based on ethnic discrimination***

452. Indicators broken down by ethnic group will be reported periodically to the authorities and to the general public, as the basis for designing policies and to signal those areas where inequity and marginalization are greatest.

453. Native peoples will be trained for better utilization of natural resources along with greater participation and organization. Accelerating programs in progress and considering

new programs and projects will facilitate the proposed objective of greater equality among ethnic groups to be achieved.

454. Based on experience in some projects,<sup>68</sup> a program will be designed that includes increasing the coverage of services defending people's rights, with institutional strengthening for such services, personnel training, and information disseminated among the population regarding their role. This action will strengthen ombudsperson services, which have a high impact on equitable access to justice and the protection of rights among the poor, particularly indigenous groups or native peoples.

455. The Ombudsperson's Office will be strengthened with special emphasis on human rights offices for matters relating to indigenous peoples, in their role of providing information and serving the demands of vulnerable sectors of the population in indigenous areas of the East and West identified as most sensitive due to their high levels of insecurity and poverty. The Ombudsperson's Office will be set up in an agency to which the poor can appeal for remedies against any abuse or violation of their rights.

456. Programs will be created to increase access to the educational system for indigenous peoples and their continued attendance at school. In that many indigenous and native peoples are concentrated in rural areas, current efforts in Educational Reform to improve coverage and quality of the system in these areas are essential as part of a policy to reduce ethnic inequities in Bolivia. Support for bilingual education and the cross-cultural approach as elements that clearly contribute to reducing ethnic inequities in Bolivia will be increased.

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<sup>68</sup>UNDP, 1998. "Asistencia a la Defensa Pública Penal" in El Salvador and "Fortalecimiento del Servicio Público de Defensa Penal" in Guatemala, Evaluation of the Governability Program for Latin America and the Caribbean.

Matrix 5.11  
Matrix of Priority Actions and Policies  
Reducing Inequities and Barriers Based on Ethnic Discrimination

Strategic Actions	Action Plan	Regulatory Instrument(1)	Institution Responsible
Promote human rights compliance	Strengthening of Ombudsperson's Office	-----	Min. of Justice
	Strengthening of human rights defenses (Ombudsperson)	-----	Min. of Justice
Promote ethnic equity	Development and implementation of training programs for indigenous organizations in the sustainable use of natural resources and the environment	-----	VPEPP
	Increased access to the educational system for indigenous peoples and their continued attendance at school (bilingual education and cross-cultural approach)	-----	MECyD
	Periodic dissemination of information on indicators broken down by ethnic group.	-----	INE-VPEPP

-----Actions that do not require regulatory instruments or that already have regulations.

#### D. Cross-Cutting Issues

457. The BPRS recognizes the need to incorporate cross-cutting issues in the four strategic components, relating to ethnicity, gender, the environment, and natural resources. These areas are of particular importance for reducing poverty while, on the one hand, recognizing the diversity of the Bolivian population and, on the other hand, defining development processes.

458. The proposals in each of the cross-cutting issues incorporate additions to the job opportunities and income components, as well as capacity building, security and protection, and promotion of societal participation.

#### **Development with identity of indigenous and native peoples**

459. While poverty has many dimensions, the diagnostic assessment and the conclusions of the Dialogue suggest a high correlation between poverty and the ethnic origin of the population. Fundamentally, this relationship is manifested in the lack of opportunities for indigenous and native peoples, who encounter constraints when it comes to incorporating themselves in a participatory and competitive way into the political, cultural, social, and economic life of the country, in terms of dignity, opportunity, and equity.

460. The BPRS emphasizes strengthening and implementing development—with their own identity—of the indigenous and native populations in Bolivia. In this way, it is hoped to help enhance their quality of life, to enable them to make economic progress, and achieve participation and cultural affirmation. This objective entails actions in the following areas: (i) broadening opportunities for the economic development of native peoples; (ii) facilitating the development of social services with comanaged equity; and (iii) strengthening political development with legal and institutional affirmation.

*(i) Broadening opportunities for the economic development of native peoples*

461. It is necessary to promote an increase in the competitive advantages of the traditional practices of the indigenous and native peoples, which, with strengthened and largely local self-management, strategic alliances, and the sustained support of technologies, resources, and services, will be able to achieve their own economic development and incorporation into the economic life of Bolivia. Consideration will also have to be given to acting on the human settlements of indigenous and native peoples in their territories, Native Community Territories (TCOs), settlement zones, midsize cities, and major cities.

462. The native and indigenous peoples have resources, knowledge, and potential for developing economic activities that go beyond agricultural and livestock production; these include processing, marketing, the development of micro-enterprises, and linking to markets in accordance with their own practices and customs. However, these activities reflect the low degree of economic linkage, attributable largely to the fact that the State does not provide ways whereby they can gain access to financial and nonfinancial resources and to technological information and innovation, as well as training processes that strengthen particular economic traits.

463. In order to broaden the opportunities of small farmer communities, indigenous and native peoples will design and implement the National Indigenous Development Plan, which will contain programs and projects for developing the various sectors of the national government in the economic, sociocultural, legal, and institutional areas. The Plan will address the specific traits of small farmer communities, indigenous and native peoples, will seek to incorporate transversally the full supply of national programs, financing, and services, and will incorporate the indigenous dimension in the sectoral policies, plans, programs, and projects. This process will be carried out in coordination with the various other sectors in order to ensure that shared undertakings are assumed.

464. To make the Plan operational, the Law for Small Farmer, Indigenous, and Native Development will be drawn up to support efforts to safeguard, protect, and promote the development of small farmer communities and native and indigenous peoples, as a duty of society in general and the State in particular.

465. The “Innovation and Apprenticeship Project for the Development of Indigenous Peoples” will be implemented and will consolidate culturally based micro-enterprises. The objective is to demonstrate that small farmer, indigenous, and native producers, and



producers of culturally based goods and services, can generate income and reduce poverty if they obtain sustained access to financial services, technical assistance, and training that are culturally relevant, economically appropriate, and competition oriented.

466. Within this framework, comparative advantages will be tapped in accessing and making use of the social capital represented by indigenous and native populations. These advantages are reflected fundamentally in accessing and using their own knowledge and technologies and in organizational bodies structured around ancestral forms of social and economic organization.<sup>69</sup> Three lines of action are contemplated: advisory work during the project execution phase on technical, legal, and other issues (Technical Assistance); transfer of capabilities to productive economic units (Training); and support for the construction of small infrastructures and the acquisition of nonlocal equipment and materials required for the functioning and operation of the object of the initiative (works, equipment, materials, and financial services).

467. Experiences will be systematically reviewed, identifying the components of learned behavior for dissemination and later use in the design of specific strategies which permanently consolidate the undertakings in question. The organization process will involve the Vice Ministry of Micro-Enterprises, so that the apprenticeship components can be incorporated into the policies, plans, program, and projects of the sector. This process will be reflected in a proposal to amend the Commercial Code so as to create a legal structure through which officially recognized MSE's gain access to benefits granted by the State.

468. The Management of Native Community Territories (TCOs) and Small Farmer Communities will be promoted with a view to achieving the sustainable use of natural resources by means of capitalizing on the knowledge, practices, and customs of the indigenous population, thereby strengthening cultural identity. For this objective, it is planned to design a TCO Management Plan; train human resources in technical, educational, health, administrative, and other areas, taking into account existing knowledge and capacities; design indigenous standards for the operation of TCOs, including redistribution and control mechanisms based on indigenous values; identify, develop, and channel social, productive, and environmental projects that yield economic and social benefits and have guaranteed sustainability; identify strategies for relating, supporting, and strengthening the communications skills of indigenous leaders for consultation between the TCOs and prefectures, municipalities, and other cooperation bodies.

469. The Management of Small Farmer Communities will be developed with the framework of local and regional forms of organization, promoting the use and development of natural resources and emphasizing and empowering ancestrally used production strategies.

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<sup>69</sup> In Bolivia, these organizational bodies go beyond the nuclear family and the extended family, and include more structured entities such as the community, the town council, the *Ayllu*, the colonial territory, and zones.

To this end, the “development centerpieces”<sup>70</sup> of small farmer communities will be identified with a view to producing spillover and demonstration effects in the economic, social, and political sectors which promote regional development.

470. The actions in question require linkage and coordination with the MAGDR so that the programs and projects to be designed and executed duly reflect the use of resources, forms of organization, and technologies used by the indigenous and native populations and small farmer communities.

*(ii) Facilitating the development of social services with comanaged equity*

471. In the social area, it is necessary to identify and eliminate the obstacles to equitable access to local and regional health, sanitation, education, and other social services comanaged by State institutions and indigenous organizations. Multicultural characteristics must be considered and traditional knowledge tapped to improve the quality and supply of such services.

472. Education, health, and basic services represent an opportunity for the social mobility of small farmer, indigenous, and native organizations. Accordingly, the BPRS will seek greater participation on the part of small farmer, indigenous and native communities in the design of educational content, the rescue and promotion of cultures, and attention to health and differentiated basic services. In addition, there must be greater commitment on the part of the various sectors involved so that demands will be met in a culturally appropriate fashion, through the provision of high-quality benefits and comprehensive services meeting the needs of the small farmer communities and of indigenous and native peoples.

473. To improve diagnostic assessments and the information needed for decision making, a database and situation map will be developed on the small farmer communities, indigenous and native peoples in the areas of health, education, and basic services. This data system will make it possible to identify shortcomings by people and by region, permitting a better understanding of the realities faced by native peoples as regards health, education, and basic services. Based on this information, coordination with the social area sectors will be carried out for purposes of reviewing and perhaps reformulating the strategies, programs and projects geared toward responses tailored to the specific circumstances prevailing in each case.

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<sup>70</sup> Development centerpieces are understood to be the “core” activities carried out by communities from productive, economic, cultural, and institutional point of view, whose results allow for adequate local, regional, and national linkages and exchanges. A development centerpiece is deemed to have systemic importance, in the sense that the productive economic system is located at the hub, which then generates spinoff effects in the social, economic, political, institutional, and cultural identity fields.

474. The execution of the Health with Identity project, implementation of the SBS, and the Bilingual Cross-Cultural Education Program will be monitored with a view to recording progress and/or slippages in these interventions. Backward analysis of this information will provide a greater understanding of the restrictions on and potential of the indigenous peoples, thereafter ensuring positive results with a greater impact in the area of respecting individual forms of providing health, education, and basic services.

***(iii) Strengthening political development with legal and institutional affirmation***

475. In the political area, the self-management capacities of indigenous and native organizations will be strengthened. This will empower and develop their leaders' capabilities with a view to facilitating access to and participation in political power centers, in the executive, legislative, and judicial branches at the national, departmental, and municipal levels.

476. The practices of participatory democracy and public management based on solidarity that are the hallmarks of the indigenous and native cultures will be respected and strengthened, thereby facilitating the manner in which their representatives participate in the institutions of the State while enabling the exercise of full citizenship by indigenous and native men, women, and youth.

477. This will entail the recognition and exercise of the rights of small farmer communities, indigenous, and native peoples, so that their economic, social, cultural, and political rights are incorporated into national legislation. This will be carried out in coordination with the various sectors of the national government, the legislative branch, and indigenous, native, and small farmer organizations.

478. There will be incentives for and monitoring of compliance with and application of laws, standards, regulations, and agreements which recognize and promote the rights of the indigenous and native peoples, so that the actions carried out by the different State levels (departmental administrations and municipal governments) are carried out in accordance with the established legal framework.

479. At the same time, the Legal Assistance Service for Indigenous and Native Peoples will be institutionalized. This Service is devoted exclusively to providing technical and legal assistance on topics relating to the resolution of collective conflicts involving the rights of small farmer communities and indigenous and native peoples, both at the central and the decentralized levels. This action is carried out through the Legal Assistance Service for Indigenous and Native Peoples Project (SAJPIO) which also supports the process of regularizing land titles to the TCOs under the INRA.

**Box 5.14**

**Ethnic Social Capital in Bolivia**

*Generally speaking, social capital as understood to mean all the implicit agreements which characterize social, economic, and political relations within social groups characterized by strong ties of cooperation and mutual dependency. In BOLIVIA, the social organization of rural indigenous populations has historically been based on various forms of cooperation and reciprocity manifested in the use of “aynis,” “mink’as,” the “compadrazgo,” and other mutual aid institutions.*

*Recent studies have demonstrated that the presence and use of social capital in the organization of production reduces transaction costs and asymmetries in information, yielding better production results. In Bolivia, indigenous groups and native communities are the social bodies that make the greatest use of various forms of social capital. Andean reciprocity is one clear example of the use of social capital, through which there are exchanges of labor, financial loans, and other services which, in the absence of market opportunities, match local requirements and demand in a timely manner. Andean reciprocity is also reflected in the local institutional organization, the rotation of prestige functions, and more generally, the nature of community participation which characterizes local organizations. These forms of cooperation are subsequently replicated in distant labor markets and urban centers, thereby facilitating access to job and income generation opportunities. Finding a job, starting a business, and generally just surviving in these social groups, in an environment of high economic uncertainty, depend in large measure on established informal connections and networks. When faced by major gaps in the distribution of human capital, ethnic social capital is thus converted into an effective form of participating in productive markets and reducing the effects of economic uncertainty.*

*The development of culturally based micro-enterprises tends precisely to make use of the broad base of ethnical social capital, thereby ensuring that small farmer communities and indigenous and native peoples can make effective use of their comparative advantages and be integrated competitively into the national and international market. In this process, social institutions like the “small farmer community” are converted into important bodies which guarantee the continuity and economic underpinning of these populations.*

480. The management capacities of indigenous, native and small farmer community organizations will be strengthened to ensure the comprehensive, participatory, and sustainable exercise of their economic, political, social, and cultural rights so as to enable them to participate in planning arrangements at the national, departmental, and local levels.

Lessons will be drawn from the “Local Indigenous Management Project” focused on management training apprenticeship for indigenous leaders and organizations and their relations with municipal governments.

481. On the other hand, mechanisms will be developed to consolidate the powers delegated by the municipal government to the Indigenous Municipal District, principally with reference to participation in the definition of development policies and strategies, the indirect administration of resources granted for operational expenditure, the execution of small scale administrative projects, and the coordination of activities with other social actors in their jurisdiction.

482. This consolidation complements the departmental and municipal decentralization, ensuring that indigenous and native peoples and small farmer communities have scope for participation in the municipalities in order to achieve their own local development.

Matrix 5.12  
Matrix of Priority Actions and Policies for  
Development with Identity of Indigenous and Native Peoples

Strategic Action	Action Plan	Regulatory Instrument	Responsible Institution
Broaden opportunities for economic participation	Promotion of plans and programs oriented toward facilitating entrepreneurial organization and self-management by indigenous and native peoples.	Law for Small Farmer, Indigenous and Native Development	MACPIO MDSP-VPEP MGDR SERNAP
	Development and implementation of initiatives which consolidate culturally based indigenous and native micro-enterprises.	-----	Ministry of Labor and Micro-Enterprises
	Management of Native Community Lands and Small Farmer Communities	-----	
Facilitate access to social services	Link programs and projects to the special characteristics of small farmer communities and indigenous and native peoples	-----	MACPO, MECD, MSPS, MVSB, Ministry of Finance – VIPFE
Strengthen indigenous and native group organizations	Recognition and exercise of economic, social, cultural, and political rights of small farmer communities, indigenous and native peoples	DS, institutionalization of Legal Assistance Service for Indigenous and Native Peoples	MACPIO VPEPP DUF
	Strengthening management capacities of indigenous and native organizations, oriented toward achieving more effective participation in national, departmental, and municipal bodies.	-----	
	Development of mechanisms consolidating the functionality of the Indigenous Municipal Districts	-----	

----- Actions that do not require regulatory instruments or that already have regulations.

## Promoting gender equality

483. The problem of gender inequality is reflected in the disparities between men and women in terms of capabilities, access to opportunities, economic and political participation and other areas.

### Box 5.1

#### Gender Inequalities

“We women are the most backward, it is we who suffer most from poverty”  
(Salomé Pereira, ICLA delegate)

In the National Dialogue, civil society expressed the need for greater opportunities for women to participate.

*The processes and mechanisms that create gender discrimination and inequality are reflected in some areas more than others, depending on time, place and culture. Reducing the gaps and inequities between men and women, in other words “achieving greater equity,” is not only an ethical imperative and a matter of justice, it is also a profitable investment in the development of society.*

*In urban areas, part of the income differentials between men and women can be explained by differences in human capital endowments and another part can be attributed to discrimination. On average women earn 66 percent of what men with the same education earn. This reflects women’s position in the labor market, which is characterized by low-ranking service sector jobs with limited opportunities for improving their productivity and income.*

*Recognizing that if social equity is to be meaningful it must include gender equity means that women must have the same access as men to education, training and instruction, as well as opportunities for acquired capabilities to be utilized and reflected in gender equity.*

*The challenge seems clear: full citizenship with gender equality must be created. This means improving living conditions, access to decision-making, and equitable participation in all spheres.*

484. Measurements of poverty based on household surveys indicate that the headcount index of poverty in households led by women is slightly higher than in households led by men. The differences are systematic but small. However, the most notable differences can be seen in the average income women receive from work, which is lower than that of men at the same educational level (approximately 66 percent of the total earned by men).

485. Actions will be promoted to achieve gender equity by: (i) developing and implementing policies and actions designed to improve opportunities for women; (ii) creating skills and exercising the citizenship of women; and (iii) protecting and promoting women's rights.

*(i) Promoting policies and actions to improve opportunities for women*

486. As part of the economic empowerment of women, policies will be developed that seek to value the productive role of women and promote the marketing of their products. In this regard, women's participation will be promoted in economic circles that allocate resources and that have access to income, productive resources, the commodities market, capital and labor.

487. In the work sphere, opportunities will be improved for women in terms of access, compensation and the use of productive resources. Access to land ownership, credit and broad consideration of the current uneven division of domestic and family tasks will also be important.

488. The possibility of eliminating legal and regulatory barriers that make it difficult for women to have equal access to opportunities and capabilities will be analyzed. The Labor Code and the Family Code contain provisions that hinder women's access to the labor market based in one case on the existence of "protectionist" provisions that increase the cost to employers of hiring women, and in the other case establish principles that promote the double shift or hinder democratization of domestic activities. In both cases, these legal provisions affect women's ability to obtain work or increase their skills. Labor legislation will be reviewed with respect to domestic work, temporary work and prohibitions on women's work.

489. The productive role of women will be valued by supporting the productive capacity of MSE's, targeting those led by women (businesswomen and heads of household). To this end, agreements will be established between the Vice Ministry for Gender, the Ministry of Labor (Micro-Enterprise Vice Ministry) and certain programs carried out by the Ministry of Agriculture (PASA, PDLA and PRONAR). This effort must involve the Prefectures and the Municipal Governments.

490. Information systems on technology, markets, and production networks will be established, facilitating access for urban and rural women microproducers. To promote technical training for women, there will be coordination among the Ministry of Education and the Ministry of Labor (which develops training programs such as INFOCAL, PROCAL), the Municipal Governments and the Prefectures, as well as the Bolivian Confederation of Private Entrepreneurs (CEPB).



***(ii) Generating capabilities and exercising citizenship among women***

491. A renewal of the traditional capabilities of women (handcrafts, small manufacturing, medicinal plants, ecotourism, et al.) will be promoted as part of the effort to support nonagricultural rural productive activities in regions with limited options for agriculture.

492. To improve women's inclusion in society, they will be empowered in terms of access to education, health, housing and basic sanitation, with emphasis on health services.

493. Efforts already made to incorporate the gender and cross-cultural approaches in primary education will be strengthened and extended to the rest of the educational system at all levels. The disparities between boys and girls will be evaluated in the context of the program on "Academic access and retention among girls in rural areas," which is funded by the World Bank in 50 municipalities where inequality is greatest.

494. Specific impetus will be provided for creating programs to give rural women access to education at all levels, including literacy programs, basic technical training, and support for access to and continued attendance in school. In addition, programs will be promoted for technical and higher education in areas that are not traditional for women, based on a policy of affirmative action (scholarships and academic counseling programs).

495. On the subject of health, women's access to quality health services will be facilitated through a joint effort of the Ministry of Health and the institutions involved. Such actions involve a training program for health teams, transfer of methodologies, and specialized research together with decentralized multisectoral and sectoral programs (Strategic Health Plan Programs, the SBS, the Sexual and Reproductive Health Program, special programs for risk-free maternity and prevention of adolescent pregnancies).

496. A basic aspect in building citizenship is the right to have legal existence based on identification. For this purpose, an identity card program and issuance of birth certificates with preference given to undocumented women and girls will be promoted, with emphasis on actions in rural areas.

***(iii) Promoting women's rights***

497. Given that full citizenship means respect for the personal integrity of individuals, campaigns and forums will be promoted for prevention and eradication of gender-based violence. The Vice Ministry for Gender will coordinate this action with the Legislative Branch, the Justice, Government (Police), Education and Health Ministries, with municipal governments and agents of the Judicial Branch, based on multisectoral decentralized programs and Comprehensive Legal Services (SLIs).

498. Municipal actions will be strengthened under the Ombudsperson's Offices for Children and Women. These offices are considered major operational mechanisms for the Domestic Violence Law, targeting a major determinant of the well-being of significant groups of the female and child population living in poverty. Given that the Municipal

Governments are responsible for providing support and legal services on matters relating to the Domestic Violence Law, measures will be studied to ensure their sustainability.

Matrix 5.13  
Matrix of Priority Actions and Policies  
Promoting Gender Equity

STRATEGIC ACTION	ACTION PLAN	REGULATORY INSTRUMENT	INSTITUTION RESPONSIBLE
Promote policies and actions designed to improve opportunities for women	Development of programs that promote women's access to productive resources, credit, ownership and clear title to land.	----	VAGGF – INRA
	Development of events that promote consideration of the division of domestic and family tasks.	----	VAGGF
	Revision of labor legislation and the Civil Service Regulations.	----	VAGGF - Min. of Labor
	Support for productive capabilities of MSE's, with emphasis on those led by women.	----	VAGGF - Min. of Labor
	Development of technological, market and production network information systems, facilitating access for women.	----	VAGGF - INE
Create capabilities and guarantee the exercise of citizenship by women	Development of programs promoting renewal of traditional women's capabilities.	----	VAGGF - Min. of Labor
	Improving of identification card process and civil registry, with emphasis on registering women.	----	CNE – VAGGF
	Incorporate the gender and cross-cultural approaches at all levels of the educational system.	----	VAGGF - MECyD
	Dissemination of information promoting women's access to quality health services.	----	VAGGF – MSPS
	Promotion of programs for women's access to education and continued attendance, basic technical training and support for academic access and retention programs.	----	VAGGF - MECyD
Promote women's rights	Implementation of campaigns to prevent and eradicate gender-based violence.	----	VAGGF – Min. of Justice
	Development of municipal programs to strengthen the Ombudsperson's Offices for children and women.	----	VAGGF – Min. of Justice

(1) -----Actions that do not require regulatory instruments or that already have regulations.

### **Sustainable utilization of natural resources and environmental preservation**

499. The government has taken up Sustainable Development as the conceptual basis for its policies and strategies. In this context, environmental management is an all-pervasive aspect of national development, and one that ought to be implemented in a decentralized and participatory manner.

500. Under the BPRS, the relationship between the population and the environment can be established in two directions: the population's behavior as it affects the environment (water, soil, forests, etc.) and the environment's influence on the population. In addition, the Strategy emphasizes that the greatest pollution problems are found in water resources and are caused by the mining and manufacturing industries.

501. The environmental issue is a complex one. The rural population is in close contact with the resources of biodiversity, has access to them, and exploits them according to the incentives it perceives and the needs it faces, in some cases generating adverse effects on the environment. On the other hand, the lower income urban population with subsistence-level production activities is the sector most affected by deficiencies in basic services and the levels of contamination generated by these activities, while many of the productive practices of various segments of industrial activity (small, medium and large companies) have a negative effect on the environment.

**Box 5.16**

**Poverty and the Environment in Bolivia**

*In Bolivia poverty, economic activity and the environment are closely connected. It is the poor who are most affected and defenseless against environmental problems and are at the same time responsible for a significant portion of such problems. Lower income groups are for the most part dependent upon extractive activities and have unsustainable productive practices in both agriculture and manufacturing.*

*The greatest pollution problems are in water resources due to the lack of wastewater treatment plants or the activities of mining and manufacturing industries.*

*Air pollution is not yet a problem in Bolivia. Higher pollution levels occur in the winter season due to slash and burn agricultural practices, or in some of the country's major cities at certain times. Air pollution within households affects a large percentage of rural households and is caused by cooking tasks.*

*It is estimated that at the present 41 percent of the surface area of the country is in the process of desertification as a result of high pressure on the use of land, combined with unsustainable productive practices (slashing and burning, selective forest removal, incorrect irrigation). In addition, wildlife threatened (to different degrees) in Bolivia includes 254 species of flora and 336 species of fauna.*

*Forty-eight percent of the country is covered by forests and it is estimated that 35.6 million hectares are under continuing forestry production. Currently, approximately 6 million hectares are under sustainable forest management (forestry management system).*

502. The effective implementation of environmental policies in various areas will be based on a broad process of consultation and participation involving civil society. There must be a correct understanding of the environmental dimension and the potential effects of poor management in this area on living conditions and the material resources on which the incomes of the affected population depend. In this regard, the first national environmental dialogue was held in 1999 and the Biodiversity Strategy is currently being carried out under a scheme providing for consultation with the local populations.

503. Special environmental treatment is relatively new in Bolivia. Thus, current conditions in government agencies necessitate implementation of institutional strengthening programs and decentralization processes so that the sectors, prefectures and municipal governments can effectively assume their role as implementers of environmental policies and standards.

504. Concurrently, the government will develop a comparatively important planning component at the central level. With the exception of the forestry subsector where significant

progress has been made in recent years, the limited information available on the environmental resources situation shows negative trends on which action must be taken based on strategic plans. Over the next five years, Bolivia will be developing or completing diagnostic assessments and priority intervention schemes (map of areas vulnerable to natural phenomena, resource inventories, soil and water use plans) that will identify and direct the implementation of investment projects.

505. Environmental management policies are directed to: (i) optimizing the use of water and land resources; (ii) strengthening planning, management and control of environmental quality; (iii) developing mechanisms and instruments for appropriate management of biological diversity; and (iv) promoting sustainable and equitable utilization of forest resources.

***(i) Optimizing the use of water and land resources***

506. With a view to reversing the negative trends of desertification and soil degradation, policies will use the hydrographic basin as the unit of reference and will involve a high level of participation by the civilian population in order to make public resource management compatible with projects and programs at the basin level, the formation of *mancomunidades* will be promoted.

507. The National Water Resources Plan will be designed and implemented. This Plan will establish the general guidelines for management or organization of this resource, identifying specific actions to reverse the processes of soil degradation and desertification.

***(ii) Strengthening the planning, management and control of environmental quality***

508. In terms of environmental quality, water pollution is the country's greatest problem and affects the poor population in particular in urban and peripheral urban areas. As a result, from an environmental management perspective, it is important to give priority to obtaining joint coverage goals for drinkable water and sanitary sewer systems and installing wastewater treatment plants. The BPRS has established coverage targets for water services and will promote joint work with the municipal governments, the MVSB, the MDSP, and the DUF in the new projects considered. In addition, special attention will be devoted to monitoring the activities of the mining and manufacturing industries, which are responsible for much of the country's water pollution problems.

509. Environmental aspects will be incorporated in the management of rural municipalities, with emphasis of implementing prevention and environmental control instruments, particularly the Environmental Impact Assessment (EIAs) process, in order to minimize negative socio-environmental effects and maximize local opportunities. To complement this process, the participation of civil society in the management of environmental quality will be promoted and strengthened through public consultations as part of the technical and administrative procedures for the EIAs. In the area of environmental monitoring, citizen or local participation will be supported so that social control will be

exerted from the design stage to operation of development works, activities or projects, in order to verify compliance with environmental commitments.

510. Given that few productive practices in manufacturing, handicrafts and mining follow criteria designed for environmental preservation, the coverage of programs and projects that promote a technological change in these activities will be expanded. This will benefit the environment and will simultaneously represent an improvement in the income levels of productive units in mining and manufacturing, particularly those operating on a small scale. In addition, environmental regulations for the industrial sector will be revised in order to adapt the standards originally established in the regulations to current conditions in this sector and the capacities of each segment of producers (small, medium and large enterprise).

***(iii) Developing mechanisms and instruments for appropriate management of biological diversity***

511. Bolivia is a country with great potential in biodiversity resources. However, the exploitation of these resources has not followed criteria for sustainable management or use. This has led to indiscriminate use of some of these resources and a tendency to underestimate the contribution that appropriate utilization of these resources can make to rural incomes and the economy as a whole. Preliminary studies indicate that within a period of approximately 15 years the contribution of biodiversity could come to represent an increase of about 10 percent in GDP, if activities are developed in ethnic and ecotourism, mitigation of climate change and biodiversity services relating to biotechnology, ecological products, and others.

512. The appropriate utilization of the potential of biodiversity will also have significant positive effects on disadvantaged and vulnerable segments of the rural population (native peoples and peasant communities). In the short term, incomes of the communities of the east and high plateau will be increased through projects of sustainable use of wild animal species such as vicuna, lizard and peccary, whose economic value has already been recognized.

513. A significant portion of Bolivia's most important biodiversity resources are found within protected areas, as are important segments of the indigenous and peasant populations. Thus, consolidation of the National System of Protected Areas (SNAP) and the ecological, social, financial and institutional sustainability of protected areas are a basis for *in situ* conservation of biodiversity in Bolivia and will help to improve the living conditions of the people living within these areas.

514. External buffer zones will be established for protected areas and biological corridors, based on ecological, socio-economic and cultural criteria. Community participation will be promoted in the planning, management and administration of protected areas, with the assumption that their management must be approached as a joint undertaking of the State and civil society. For this purpose, mechanisms will be created and strengthened that facilitate the effective and responsible participation of grass roots organizations representing the population in protected areas and their buffer zones, as well as associated stakeholders.

Efforts will be developed to link the management of protected areas to indigenous and peasant views on the management of territory and natural resources.

515. The National Strategy for Conservation and Sustainable Use of Biodiversity that is currently being developed will be approved and implemented. In addition to assigning an important role to local populations in the conservation and sustainable use of these resources, the Strategy seeks to develop the economic potential of biodiversity, with a more equitable distribution of the benefits it provides for the various stakeholders.

516. In terms of strengthening the institutional framework of the government, support will be provided for the operations of the Consultative Wildlife Council, which has the role of recommending directives for the sustainable management of some species, in the context of the indefinite general close season currently in effect. Scientific-technical development centers will be strengthened in the management of wild flora and fauna and establishment of the National Genetic Resources Conservation System will be completed. There will be standards, regulations, guidelines and procedure manuals for the conservation and sustainable use of wildlife, while inter-institutional agreements signed with the police and armed forces will allow for control and protection of wildlife resources.

***(iv) Promoting sustainable utilization of forest resources***

517. Sustainable utilization of forest resources will be promoted by integrating forests, industry and the market through strategic alliances, shared risk corporations and subsidiary contracts among all stakeholders, concessionaire companies, private owners, social groupings in municipal forestry reserve areas, indigenous territories and Native Community Territories (*Tierras Comunitarias de Origen—TCOs*).

518. Free access will be promoted for the entire population to woods and forests for management and utilization with a view to creating new opportunities to improve their incomes. In particular, an effort will be made to bring within the national forestry framework those producers who are yet engaging in extractive activities without complying with the corresponding regulations (payment of concession patent, sustainable forest management, and other considerations). In this sense, the introduction of non-timber forest activities (gathering of brazilian nuts and palm cultivation) within the forest system will be supported, and the establishment of Local Social Associations (*Asociaciones Sociales Locales – ASLs*) in municipal forest reserve areas will be promoted.

519. Together, both aspects represent an expansion of approximately 4 million hectares in the country's surface area dedicated to forestry under the forestry system (two-thirds of the surface area currently under the forestry system). As a result of the formalization of these activities, the populations involved, which are frequently the most impoverished, will have a direct positive impact on the income levels they receive.

520. As a complement to this, technical assistance will be given to all stakeholders involved in order to facilitate management of the forestry systems and contribute to forest certification processes. This policy will contribute to the design of Forest Management Plans.

Systems will be designed and implemented for prevention and early warning of fires in forests and forested land as well as of degraded forest resources due to inappropriate or incorrect use, particularly on lands used for agriculture or cattle. As a long-term strategy, the planting of new forests will be promoted for sustainable use of land resources, to support fragile ecosystems and to provide for better utilization of environmental services.

Matrix 5.14  
Matrix of Priority Actions and Policies  
Sustainable Utilization of the Environment

Strategic Actions	Action Plan	Regulatory Instrument	Responsible Institution
Optimize the use of water and land resources	Design of National Water Resources, Basins and Flood Control Plan.	-----	DGCTC- MDSP
Strengthen the planning, management and control of environmental quality	Development of incentives programs to promote environmentally beneficial technological change in mining and industry.	-----	DGCSA - MDSP
	Development of environmental regulations for industry.	-----	DGCSA - MDSP VICI
	Institutionalization of environmental management in prefectures and municipalities.	-----	DGCSA - MDSP-GM
	Design and implementation of programs for the participation of civil society in managing environmental quality.	-----	DGCSA - MDSP
Develop mechanisms and instruments for appropriate management of biodiversity	Development of programs for sustainable use of wild animal species.	-----	DGB - MDSP
	Fees charged in protected areas to benefit local communities.	-----	SERNAP - MDSP
	Consolidation of the National Protected Areas System (SNAP).	-----	SERNAP - MDSP
	Approval and implementation of the Biodiversity Strategy.	-----	DGB - MDSP
	Establishment of biological corridors and buffer zones.	-----	SERNAP - MDSP
Promote sustainable and equitable utilization of forest resources.	Development of programs for integration of forests, industries and markets.	-----	DGDF - MDSP
	Promotion of sustainable forest management.	-----	DGDF INRA - MDSP
	Approval and implementation of Forest Management Plans.	-----	DGDF MDSP and Forestry Superintendency

-----Action that does not require a regulatory instrument or that already has regulations.



## **VI. INSTITUTIONAL FRAMEWORK FOR THE BPRS**

### **A. Institutional Environment and its relationship to the BPRS**

521. The implementation and sustainability of the Strategy require a favorable and efficient institutional environment, with public institutions that promote transparency and that have broad technical capacity for administering policies within a decentralized context. Institutional development must focus on setting up administrative structures that permit timely and effective problem-solving and reduce corruption.

522. Public institutions must be capable of promoting the effective exercise of the political, economic, and social rights of individuals. This involves implementing a managerial model of public administration, modernization and adaptation of organizational structures, development of effective management mechanisms and the professionalization and specialization of public officers.

523. Institutional development is a cross-cutting issue included in each strategic component according to the characteristics of the actions proposed. Given that each area has its own characteristics, it becomes necessary to design legal standards, to enforce other standards already in effect, to accelerate institutional reforms, and particularly to deepen the decentralization process.

### **B. The Institutional Approach**

524. In order to achieve better delivery of public and private goods and services, the Bolivian State began to modernize in the mid-1980s, defining new roles for both the public and private sectors. With this new framework, the State ceased to participate directly in production activities and gave the private sector responsibility for producing private goods and services. At the same time, the State continued to be responsible for the delivery of public goods and services such as education, health, basic sanitation, street lighting, highways, parks, and other goods and services.

525. Thus, the role of the State in its relations with the private sector is geared toward monitoring the proper operation of the market by seeking to consolidate the rule of law and develop an appropriate regulatory framework. In terms of its relations with the public sector, the State seeks greater efficiency and capacity in order to provide timely responses when creating public policy and satisfying the basic needs of the entire population.

526. With this aim in view, Bolivia has already adopted a series of institutional reforms to adapt the structures of the State to a framework that provides transparency and participation through: (i) an independent regulatory system that oversees the performance of certain strategic sectors of the economy; (ii) the initiation of judicial system reform to promote the effective exercise of the rule of law; (iii) the design of a model that modernizes public management based on principles of efficiency and transparency in the

operation of public agencies; and (iv) the application of a decentralized public management model with a municipal base and citizen participation.

### **Regulatory system**

527. The privatization and capitalization measures transferred production activities and services to the private sector. However, due to the characteristics of local markets and some production activities, the State's regulatory role is necessary to protect the interests of the population as a whole and to guarantee the appropriate operation of companies so that they are able to produce profits but also to serve their customers with quality products and fair prices. Bolivia's markets are small and thus economies of scale lead to the prevalence of oligopolistic structures in many markets. In rural areas, low demographic pressure in various regions is a disincentive to the expansion of basic services and electrical power; appropriate structures are therefore needed to supervise the attainment of the expansion and quality goals that the private sector has agreed to pursue in the provision of services.

528. In terms of regulatory activities, the State has moved ahead with consolidating institutions with responsibility for this issue in three large areas: (i) the System for Regulating Renewable Natural Resources [*Sistema de Regulación de Recursos Naturales Renovables*—SIRENARE] consisting of the General Superintendency of SIRENARE and the Forestry and Agrarian Superintendencies; (ii) the System for Regulating the Financial System [*Sistema de Regulación del Sistema Financiero*—SIREFI] consisting of the Superintendency of Hierarchical Resources, the Superintendency of Banks and Financial Entities, and the Superintendency of Pensions, Securities and Insurance, and (iii) Sectoral Regulation System [*Sistema de Regulación Sectorial*—SIRESE] consisting of the Superintendencies of Electricity, Hydrocarbons, Transport, Mining and Basic Sanitation.

529. This institutional system began to operate in 1995 and is being consolidated. Nonetheless, there is ongoing analysis of the need to create new Superintendencies in specific areas such as Biodiversity, Water Resources, Industry and Commerce so that the private sector will develop in a fully competitive environment.

### **The rule of law**

530. In a context of the full exercise of democracy and respect for individual freedoms, the State must guarantee the enforcement of established rules and respect for the constitutional rights of both legal entities and individuals, whether domestic or foreign. In addition, the State must be capable of providing a transparent administration that punishes corruption and the misappropriation of public goods or their use for private benefit.

531. The consolidation of the rule of law will require minimizing the degree of institutional vulnerability to the social, political, and economic pressures that arise both from within and outside the Judicial Branch, due to the existence of strong patronage networks, cronyism, and corruption.

532. In this context, progress has been made in establishing a new institutional structure and in appointing authorities independent of the Judicial Branch. The installation of the Constitutional Court, the Judiciary Council, and the merit-based selection of the Ministers of the Supreme Court of Justice have notably improved the transparency and independence of the judicial system.

533. However, judicial system reforms must go deeper. A true rule of law will be achieved to the extent that all judicial system entities enjoy the necessary independence, transparency and efficiency and the entire population is afforded democratic access to the administration of justice.

534. In order to achieve this goal, objectives are established in three areas: (i) ensuring the independent and effective operation of the Judicial Branch, the Office of the Attorney General, the National Police, the ombudsperson systems, and the prison system; (ii) completing modernization of the regulatory framework by updating the Penal, Civil, Commercial and Family Codes, as well as implementing the new Code of Criminal Procedure and approving a new Code of Civil Procedure and an Administrative Procedures Law; and (iii) implementing institutional development programs in all judicial bodies in order to provide the management tools needed to render timely, effective, and transparent administration of justice.

### **Modernization of public administration**

535. The modernization of public administration is a cross-cutting strategy that has been pursued for many years and has been particularly strengthened in recent years. With approval of the SAFCO Law in 1990, guidelines were introduced to create a culture of results-oriented public administration based on modern concepts and mechanisms for governmental control and responsibility for the civil service. These initiatives from the early 1990s did not have sufficient continuity and their implementation was very precarious.

536. Recently, based on the needs created by the process of Popular Participation and Administrative Decentralization, the basic regulations for the administrative systems provided in the SAFCO Law were formalized. In addition, progress was made in modernizing public administration through: (i) approval of the Civil Service Regulations [*Estatuto del Funcionario Público*], which will allow the implementation of a merit-based administrative career and development of gradual institutionalization processes at all levels of public administration; (ii) development of the Integrated Management and Administrative Modernization System (SIGMA), which seeks to modernize and automate financial and nonfinancial administration in all public agencies; and (iii) creation of the System for Monitoring and Evaluating Performance-Based Government Management (SISER), which will make it possible to evaluate the results of activities undertaken in the Annual Operating Programming Exercises of the Ministries, Prefectures, and other public agencies.

537. All these policies are being implemented but their consolidation and full operation require an ongoing commitment from the various government divisions in order to become

sustainable policies and to achieve the anticipated results in the modernization of public administration.

### **Administrative decentralization and popular participation**

538. The process of decentralization implemented in Bolivia since 1994 involved an institutional transformation of public administration that has improved the delivery of local public goods and has strengthened and deepened democracy by promoting Popular Participation. In addition, significant progress has been made in terms of more equitable distribution and administration of public resources.

539. The Popular Participation, Administrative Decentralization and Municipalities Laws are basically intended to structure the institutions that will be responsible for poverty reduction tasks and must thus be consolidated, strengthened, and deepened in the context of the BPRS.

540. The results obtained show a significant increase in social investment and participatory democracy, more effective attention to local demands, as well as municipal institutions that are gradually being consolidated.

541. These results are associated with a more appropriate distribution of public investment, from both the regional and sectoral standpoints, favoring a significant increase in social investment. Significant achievements have also been made in the exercise of representative democracy and in building institutions within municipalities that have made them key players in public policies designed to reduce poverty.

542. However, adjustments must be made in the decentralization process in order to strengthen the institutional base. Thus, for example, in Dialogue 2000 the Prefectures and Investment and Development Funds were criticized by their beneficiary populations and it was recognized that there are institutional and managerial weaknesses in the municipal governments. Favoritism in the distribution and use of resources, politicization of positions, and the lack of competent technical teams were the most frequent accusations.

543. As for financial aspects, the largest municipalities have been facing unsustainable situations, leading to intervention by the State. Thus, there are still significant distortions and favoritism in resource management that jeopardize the policies of equity envisaged in the Popular Participation strategy.

544. In this context, in order for the decentralized entities to be established as the most important instrument in the fight against poverty, action must be taken regarding their institutional organization and the system of fiscal relations so as to promote better fulfillment of responsibilities at the three levels of public administration and to strengthen the accountability systems of their authorities.

545. The principles on which the decentralization adjustment policies will be based are as follows:

- a) Efficiency, through appropriate institutional organization and the implementation of incentives to ensure that the three administrative levels allocate public resources effectively.
- b) Equity, through a distribution of resources that incorporates elements of interpersonal equity, so that public resources will be targeted for the benefit of the poorest members of society.
- c) Transparency, applying accountability systems that will allow greater control, strengthening the responsibility of the public authority and supporting social control.

### **C. Institutional Reforms: Further Decentralization**

546. Based on the institutional development policies thus far implemented by the State, the implementation of the BPRS will require the application, acceleration, and strengthening of institutional reforms linked to the operation of public agencies, so that the various actions already identified in the Strategy can be applied efficiently and transparently, thus ensuring the achievement of their objectives.

547. In this context, the four courses of action are:

- (a) A higher degree of decentralization and improvement of the municipally-based model of decentralized public management, through review of institutional jurisdictions at the different levels of public administration based on the principle of subsidiarity. The implementation of a system for distributing and channeling public resources to agencies charged with poverty reduction actions, based on a single and transparent system that is applied in accordance with progressive criteria, i.e., criteria that provide greater benefits to the poorest groups.
- (b) Institutional reform of public agencies through installation of reporting and accountability systems that direct the development of public management toward results and create greater confidence among the population.
- (c) Establishment of an ongoing social control mechanism at all levels of administration to promote the participation of social organizations and permit the application of the principle of shared responsibility for poverty reduction objectives.

#### **Further decentralization**

548. For effective implementation of the BPRS in a decentralized context, measures must be provided to make it possible to overcome the limitations found and to establish models for the distribution of institutional responsibilities to ensure efficient administration of public resources and proper execution of programs designed to reduce poverty.

549. In this context, the correlation between jurisdictions and resources available for administering them at each of the central and decentralized levels of public administration must be assured.

550. In this sense, the full application of the principle of subsidiarity is intended to better integrate jurisdictions that are currently dispersed and to improve the system of unconditional transfers. This will strengthen municipal autonomy without damaging service quality and will ensure that each level of administration will assume responsibility for the functions it can administer most efficiently.

551. In accordance with the principle of subsidiarity, it is suggested that human resource management in health and education as well as the resources needed for this purpose be transferred to the Municipal Governments. This transfer will be effected gradually and voluntarily. The Ministries of Health and Education, in coordination with the Ministry of Finance, will establish the technical criteria for determining the human resources financing in order to guarantee the sustainability of the process.

552. Another adjustment to the decentralization policy relates to territorial organization and the specific characteristics of institutional structures in the municipalities that reflect an urban or rural setting.

553. In urban areas, it will be necessary to establish mechanisms making it possible to expand the scope of Popular Participation and the distribution of public resources among the various municipal districts, in order to promote citizen participation in defining spending priorities and to keep resources from being concentrated in only some areas of the large cities. For this purpose, an effort will be made to ensure that urban municipal governments also have general, transparent, and progressive criteria to ensure appropriate distribution of public resources as well as the effective participation of neighborhood organizations in planning activities for local development and social control.

554. In rural areas, it will be necessary to prevent excessive dispersion of resources and public agency efforts in municipalities with very small populations. For this purpose, the creation of municipal *mancomunidades* will be explicitly encouraged and the distribution of resources to municipalities with populations under 5,000 that have not agreed to join one of these arrangements will be avoided.

555. Based on clear rules on municipal debt and greater discipline to provide incentives for municipalities to generate their own resources, a policy on restructuring of local finances will be implemented to provide for correct management of municipal finances. This policy will guarantee macroeconomic equilibrium at the national level, minimizing the risk of improper fiscal management at the local level.

556. The policy on restructuring local finances will also promote fiscal responsibility and will introduce the incentives needed so that municipal governments will overcome their current state of dependency on transfers received from the national government, as well as the situation arising from unsustainable municipal indebtedness.

557. Based on these actions, it is suggested that a policy be implemented to stimulate fiscal discipline in the municipalities through a municipal fiscal restructuring program and implementation of controls on subnational indebtedness. This policy will overcome the financial crisis of municipal governments and will reaffirm their autonomy, for which purpose the State, through the Ministry of Finance, will agree on specific arrangements, goals, and indicators reflecting fiscal discipline in municipal governments. These commitments will lead to a fiscal restructuring certification—an indispensable requirement for access to credit from the National Regional Development Fund and other credit entities regulated by the Superintendency of Banks and Financial Entities and other institutions.

558. The policy must also consider the development of capacities within the Ministry of Finance for maintaining an ongoing record of municipal public debt, as well as good performance in carrying out the fiscal restructuring programs.

### **Progressive distribution of resources**

#### *HIPC II resources*

559. Debt relief funds will be transferred automatically to the municipal governments through the banking system for deposit to a special poverty reduction account, with a prescribed disbursement schedule. This transfer will be effected in a transparent way, applying the equity criteria defined in Dialogue 2000 according to the following formula: 30 percent of the funds will be distributed by department and within each department distribution will be made to the municipalities based on poverty indicators; the remaining 70 percent will be allocated based on poverty indicators among all the municipalities. The poverty indicator to be applied is Unsatisfied Basic Needs (UBN).

560. In order to establish the amount of relief funds for each municipal government, the population of each municipality will be recalculated according to the following formula:

$$\text{Recalculated Population}^{71} = (\text{Population A}) \times (-1) + (\text{Population B}) \times (0) + (\text{Population C}) \times (1) + (\text{Population D}) \times (2) + (\text{Population E}) \times (3)$$

Where:

Recalculated Population = Population of each municipality recalculated on the basis of its poverty indices

Population A = Number of inhabitants in the municipality corresponding to the population category with Satisfied basic needs

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<sup>71</sup> Formula suggested in the draft Dialogue Law, currently being developed and discussed.

Population B = Number of inhabitants in the municipality corresponding to the population category at the Poverty Threshold

Population C = Number of inhabitants in the municipality corresponding to the population category of Moderate Poor

Population D = Number of inhabitants in the municipality corresponding to the population category of Indigent Poor

Population E = Number of inhabitants in the municipality corresponding to the population category of Marginal Poor

561. Seventy percent of the resources from the Special Dialogue 2000 Account will be distributed among all of Bolivia's municipal governments according to the proportion corresponding to the Recalculated Population in each municipality divided by the total number of all recalculated populations.

562. Thirty percent of the funds from the Special Dialogue 2000 Account will be divided into nine equal parts for each of Bolivia's departments, and each of these parts will be distributed among all the municipalities in each department in proportion to the Recalculated Population in each municipality divided by the total number of recalculated populations for all municipalities in the department.

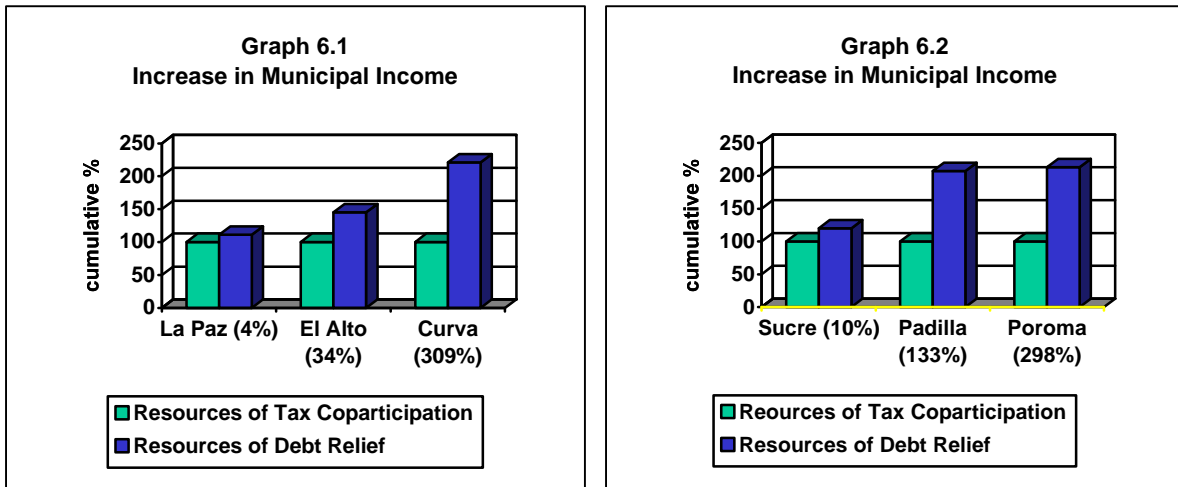
Table 6.1  
Agreement on Allocation of HIPC II Resources

Executing Agency	Transfer Criterion	Transferring Agency	Requirement
Municipal Governments	70% by poverty indicators (Unsatisfied Unmet basic needs)  30% to the country's 9 departments where it will also be distributed based on poverty The distribution criterion will be revised every 5 years	Banking System Special Account for the Fight against Poverty Automatic transfer with predefined schedule	Approval of Dialogue Law

Source: Technical Secretariat of National Dialogue 2000.

563. The application of these criteria in transferring resources gives priority to the municipalities with the highest Headcount Index of poverty. To illustrate the progressive nature of the criteria utilized, the resulting allocation of resources to 6 municipalities in the departments of Potosí and Chuquisaca is shown in the graphs below.

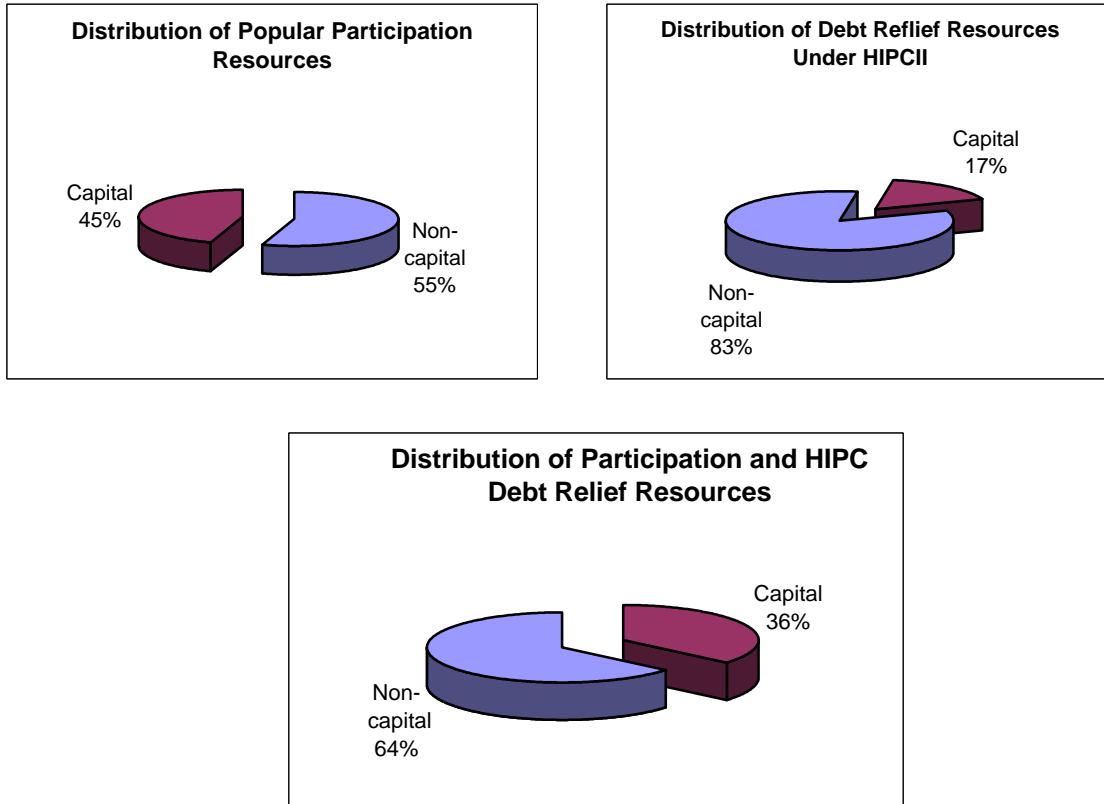




564. According to this formula, the allocation of resources in small municipalities is twice the current allocation (PP) in relative terms, the allocation to intermediate municipalities increases notably and greater fiscal efforts are required of large municipalities that have a larger tax base.

565. This equity criterion compensates for the bias caused by the per capita distribution of resources in effect since 1994 pursuant to the Popular Participation Law that channels more resources to municipalities with higher population concentrations, as can be seen in the graphs below.

Graph 6.3  
Comparison between Per Capita Allocations and Allocations based on Poverty



566. Under the Popular Participation criterion, in geographic terms, the municipal governments that are Capitals (10 percent of all municipalities), take 45 percent of the resources, while the remaining 90 percent of municipalities divide up 55 percent of the resources.

567. The composition changes when the poverty criteria defined in the Dialogue are applied. The largest amount of resources is transferred to regions with the highest Headcount Index of poverty and scattered populations, where the costs of providing the same services are higher.

568. The resources coming from debt relief will be conditional on projects and activities involving measures that are consistent with the areas of action defined in Dialogue 2000 and that are specifically defined in the Dialogue Law. Under no circumstances may resources of the Special Dialogue 2000 Account be used to finance operating activities and current expenditures for administration of municipal governments.

### **Compensatory resources**

569. These are resources channeled by the DUF to concurrently finance local demand, promoting more equitable distribution of resources to the regions with the most poverty, harmonizing national and local policies, and favoring municipal institutional strengthening.

570. Transferring these resources will give the municipal governments the minimum wherewithal required to provide services and promote local economic development. The policy incorporates a structure of transparent incentives with clear sectoral guidelines so that municipal governments will handle concurrent investment areas through cofinancing of projects according to the rates, procedures, costs and financial management of the National Productive and Social Investment Fund (FPS).

571. To avoid distortions in the implementation of the compensatory policy, an effort will be made to gradually enhance the transparency and uniformity of all transfers granted to municipalities by the State, the prefectures, and international cooperation partners, thereby achieving balanced opportunities for access to conditional transfers for all municipal governments.

572. To the extent that the policy is consolidated, the FPS (as a specialized fund administering transfers from the national government) will begin to delegate its administrative tasks to the municipalities themselves and will become a regulatory channel for financing through conditional transfers, thereby enhancing mechanisms to ensure implementation of a comprehensive compensatory policy that will be subject to community assessment and control. In future, compensatory policy resources can be channeled to the municipal governments whenever they have developed sufficient institutional and management capacity to autonomously administer all transferred resources. The compensatory policy will operate in accordance with transparent formulas through automatic transfers to municipal governments.

573. Success in implementing the compensatory policy requires an effort by international cooperation to finance programs that are compatible with the conditions and criteria of the policy, to avoid overlapping financing and miscellaneous terms. In addition, in order to facilitate implementation, there must be flexible financing programs, without regional or sectoral targeting requirements and with coherent, straightforward, and uniform mechanisms for the procurement of goods and services.

### **Subnational credit**

574. Creation of a credit market for the municipalities will be promoted in order to facilitate increased investment and spending capacity, having due regard for fiscal discipline standards and regulations.

575. Efforts will be made to establish and consolidate a transparent municipal credit market by developing specialized and autonomous institutional capacities that make local

indebtedness efficient, minimize the risk of imbalances in public finances, and sustainably expand the investment capacity of municipal governments.

576. For this purpose, credit operations for the municipalities will be supported through the National Rural Development Fund (FNDR), an entity that is enhancing its role by applying procedures to evaluate credit risks, gradually preparing independent agencies to perform risk qualification tasks, providing funds based on credit qualification, and applying the standards established by the Superintendency of Banks and Financial Institutions.

577. To the extent that the local credit market is developed, the FNDR will concentrate its operations on those municipal governments that have difficulties in gaining access to the financial system.

578. Once the municipal credit market is consolidated, the institutional transformation of the FNDR will be completed so that the latter can become a new autonomous financial entity carrying out its operations under market conditions. At that point, the qualification and certification of the fiscal capacity of all municipalities will allow the municipal credit market to operate without distortions and with the full participation of private financial entities and other financing mechanisms.

**Box No 6.1**

**The DUF and the National Compensatory Policy**

*In order to appropriately coordinate the operation of the Investment and Development Funds, the DUF is created as a common Board of Directors for those Funds. Various policy modifications have been defined for these institutions in order to guarantee the transparency, equity, and efficiency of public investments effected through them.*

*The National Rural Development Fund (FNDR) is transformed into an agency dedicated exclusively to granting loans to municipal governments and prefectures (to a lesser extent). In addition, the National Productive and Social Investment Fund (FPS) is created on the basis of the structure of the FIS (social investment) and the FDC (productive investment), and will be dedicated exclusively to granting conditional transfers to the municipalities.*

*In addition, the institutionalization of both funds (FNDR and FPS) was initially begun by awarding 25 hierarchical positions through public proceedings. Once this phase has been concluded, institutionalization will continue with 200 positions for technical personnel.*

*The most important structural changes occur in the FPS, notably the following:*

- (1) In distributing resources to the municipalities, the formula established in National Dialogue 2000 will be used, incorporating transparency and equity.*
- (2) In a gradual resource distribution process, government resources that a municipality has received from another source (central government, prefectures, international cooperation, NGOs and other sources) and that have not followed the Dialogue formula will be deducted. In this way a National Compensatory Policy (PNC) is created whereby resources are distributed to the municipalities based on a formula, compensating the poorest groups with these resources.*
- (3) The counterpart contribution rates required of municipalities vary according to the poverty level, with lower rates being defined for the poorest municipalities and vice versa. These rates are different from sector to sector, so that indications are provided on national priorities.*
- (4) Each Ministry in charge of one of the sectors given priority in the Dialogue defines a menu of projects and eligibility criteria.*
- (5) Based on the indicated allocation, the menu of projects and FPS procedures, each municipality will define its priorities in a participatory way, thus decentralizing decision-making. In addition, project performance is decentralized in that the municipality will call for bids and will award, enter into and monitor contracts. Thus, the FPS becomes a supervisory agency of second resort, and will not raise objections to the various steps in the process.*

*The sources of financing for the funds are: international cooperation (concessionary credits and donations), the General Treasury of the Nation (TGN) and the Funds' own resources. It is expected that execution in 2001 will reach US\$100 million.*

## **Institutional reform**

579. In order to implement institutional reform, it is essential to spell out the areas of responsibility of the three levels of government as follows:

### *The central government*

580. The central government's responsibilities in the area of investment and spending at the national level are limited to sectoral programs and projects and basically to defining national and sectoral standards and policies.

581. With resources from the General Treasury of the Nation (TGN) and financing from International Cooperation partners, the central government, through the Ministries and their decentralized agencies, will carry out those programs, projects, and actions that for reasons of economic efficiency (economies of scale and externalities) must be handled by this level of government. This encompasses national reform programs in health, education, research, innovation and technology transfer, protection of the environment and natural resources, promotion of microenterprise and small business development, support for the development of microfinance and programs defining property rights, and construction, improvement, and maintenance of the basic highways network. This participation in the national public investment program may be said to represent about 30 percent of the funds scheduled for each year.

582. In the area of spending, the national government will handle recurrent expenditures for the central bureaucracy, national defense and police, transfers to the public universities system, pensioners under the old pension system, debt service and other items.

### *The prefectures*

583. The departmental administration in charge of the prefectures is a "deconcentrated" level of the central government that through investment and spending actions, programs, and projects will complement and coordinate local government interventions with the national government by promoting balanced development of the departments.

584. With financing originating from transfers from the central government to the departmental prefectures through fees, compensation fund through fees, and revenue-sharing through the hydrocarbons tax (IEHD), as well as financing from Bolivia's cooperation partners, the prefectures will execute an annual average of US\$ 100 million in departmental projects.

585. The Departmental Council, with new membership and responsibilities, will require the prefectures to invest and spend on construction, improvement, and maintenance of departmental roads, airports, rural electrification, the environment, natural resources, irrigation, and other areas with components that generate benefits transcending the municipal level.

586. Based on its characteristics, the prefecture must, within the limits established by the State, handle non-recurring departmental programs in the areas of social welfare, comprehensive childcare, agricultural development, citizen safety, promotion of productive development, promotion of tourism, promotion of sports, promotion of culture, environmental and natural disaster management.

587. According to the equity criteria and procedures defined in the National Compensatory Policy, the prefectures may not intervene in municipal jurisdictions directly or through capital transfers or ordinary transfers.

#### *Municipal governments*

588. Tax revenue-sharing resources intended for the municipalities will amount to an average of approximately US\$200 million each year. Based on the provisions of the law, approximately US\$30 million must be allocated annually to municipal government administration expenses and US\$170 million to municipal public investment.

589. In regard to the municipalities' own resources, the figures show that the largest municipal governments have an average fiscal dependency ratio of 1 to 1<sup>72</sup>, the midsize municipalities barely manage collections (of own resources) exceeding 20% of non-conditional transfers, while the smaller municipalities do not even reach this level of fiscal effort. Under these conditions, it is estimated that the volume of resources generated by local governments themselves will reach approximately US\$120 million, of which US\$85 million must be allocated to investment projects.

590. Adjustments to the system of conditional transfers, adding debt relief funds to the sources of municipal revenue, assume the availability of US\$90 million per year. It is expected that at least US\$70 million will be directed to investment projects in the sectors defined by the Dialogue.

591. In addition, the full delegation of authority in the health and education sectors means that in order to handle recurrent expenditures in these sectors, the State will make systematic transfers to cover the costs involved.

592. The implementation of compensatory and subnational credit policies will allow municipal governments to execute US\$80 million per year through joint financing operations and compensatory mechanisms with the FPS and an additional US\$40 million through credit operations with the FNDR.

593. As a result, the municipal governments will administer more than US\$530 million per year, US\$445 million of which will be allocated to investment projects in the social sectors,

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<sup>72</sup> For each *I\$us* covered by revenue-sharing arrangements, one *I\$us* is generated under the heading of the municipalities' own revenues.

rural development, economic promotion, natural resources, and other areas of responsibility established by law.

**Box 6.2**

**Policies to Improve the Decentralization Process**

*Relationships between Jurisdictions and Resources Available for their Administration*

*Jurisdictions will be transferred according to the principle of subsidiarity, which means that each level of administration (national, departmental, and municipal) will assume total responsibility for those functions that it can administer more efficiently compared to the other two levels.*

*This transfer of responsibility needs to be appropriately reflected in the resources required to administer the jurisdictions, and it will be carried out gradually. Human resources in education and health will be administered by the municipal governments under this scheme.*

*For municipalities with populations of less than 5000 inhabitants, the formation or consolidation of associations or mancomunidades of municipalities will be promoted.*

***Capacity building, installing systems of accountability and responsibility***

*Integration is still limited, there is little technical capacity and accountability systems are weak. Thus, greater effective participation of marginal groups will be promoted, particularly Indian communes [ayllus] and poor indigenous peoples in rural areas.*

***Fiscal responsibility at the local level***

*To anticipate possible imbalances in the economy, the State will implement a system of early warnings, corrections and sanctions.*

***Conditional transfers and subnational credit***

*Debt relief funds (HIPC) will be automatically and transparently allocated based on a formula of equitable criteria that give preference to the poorest municipalities.*

*The Investment and Development Funds were adapted to the decentralization model to convert them into an institutional tool capable of harmonizing national policies and local policies by executing projects with concurrent financing. For this purpose, the DUF has already organized a special conditional transfers fund called the National Productive and Social Investment Fund (FPS) that will carry out transfer operations in accordance with compensatory criteria so that national resources supporting the municipal governments will allow for better service delivery.*



594. To ensure appropriate management of resources and efficient administration by the responsible public agencies, some modifications must be introduced into the current institutional structures; furthermore, effective accountability mechanisms and correct incentives must be provided to achieve efficient and transparent management of poverty reduction programs.

595. Three areas will be strengthened to ensure institutional effectiveness: (i) agencies charged with collecting state revenues; (ii) agencies charged with carrying out the programs of the Strategy and those entities responsible for national, departmental and local public investment; and (iii) agencies responsible for generating information to be used to monitor implementation of the Strategy.

596. Revenue collection agencies are essential to the process because over the long term the BPRS will gradually cease to depend on international financing. This situation will manifest itself in a dwindling supply of resources from foreign cooperation sources that must be offset by taxes collected domestically.

597. Although the major tax reforms have already been carried out, their effects on the levels of revenues collected have not yet reached their optimum level. The tax burden is still lower than in other countries of the region and the universe of taxpayers can still be expanded. One of the essential policies for ensuring results in this area relates to the institutionalization of the services charged with collecting state revenues, i.e., National Customs and the Tax Service.

598. In both cases, as already implemented in the National Customs, the plan is to carry out an institutionalization process based on the creation of administrative authorities the management of which is delegated to a board of directors appointed on the basis of political consensus. The board is independent and has a fixed term of office that deliberately does not coincide with the term of the government administration. Thus, the management of these entities will be shielded from partisan influences and economic lobbies and will be conducted according to institutional objectives. Accordingly, each government administration may agree with both entities on special performance goals and adequate collection levels to strengthen the State's fiscal situation and to lay the groundwork for meeting the challenges of the BPRS.

599. With respect to the agencies charged with public investment and execution of the programs provided in the BPRS, specific changes must be made to them to improve their working conditions and accountability systems. At the level of national administration, this particularly involves the SNC and the Investment Funds (FPS and FNDR) responsible for channeling a significant amount of resources intended for departmental and local investment. At the departmental level, this means overcoming problems of low efficiency and transparency shown by the prefectures. At the local level, it requires improving the systems for social control of municipal governments.

600. In the case of the SNC, an agency that is expected to administer about US\$150 million per year for construction and maintenance of highway arteries, a policy will be adopted that is similar to the policy for the collection agencies, i.e., institutionalization through an administrative authority that operates in accordance with results-oriented programs and commitments and which is guided solely by institutional and technical policies.

601. In the case of the Investment Funds, the DUF has been established and a process of institutionalization has been started at all levels, with implementation of the management career stream. In contrast to the SNC, given the characteristics of the resources that these agencies manage (resources intended for social investment), the management of the funds must involve more active participation on the part of municipal governments and civil society. It has been provided that the DUF may have among its members—in addition to representatives from the national government—a representative from the municipal governments, a representative from the Vigilance Committees and a representative from Civil Society organized at the national level. In this way, not only will stricter supervision and greater transparency in the handling of the Funds be achieved, but the criteria and aspirations of those who should ultimately benefit from these resources will also be introduced in their strategic management.

602. The prefectures must be strengthened and their management mechanisms must be improved. The ambiguity in their institutional structures must be resolved. On the one hand, the Prefects are appointed by the central government and are thus part of the State, but at the same time they have a Departmental Council chosen by the municipal governments and have both supervisory powers and powers to co-manage the prefectures (approval of budgets, works contracts, financial statements etc.). This duality has created an ambiguous system in which it is impossible to effectively carry out either the administrative function, for which the Prefect is responsible, or the supervisory function.

603. In order to correct this problem, the institutional situation of the prefectures must be clarified by recognizing that as long as political decentralization models are not implemented (through changes in the CPE), these institutions will be under the national executive branch, and their supervision, as in the rest of public administration, will be the responsibility of the National Congress and the Office of the Comptroller General of the Nation. What is needed, therefore, is to develop an effective mechanism for social control from the Departmental Councils, which must exist by constitutional mandate. These Councils will be reformed to become effective representatives of each department, (a) by having the members of the Council elected from the council members in the department's municipalities, and (b) by incorporating observers from civil society organizations that may be familiar with issues of concern to the prefecture as well as provide support in supervisory tasks.

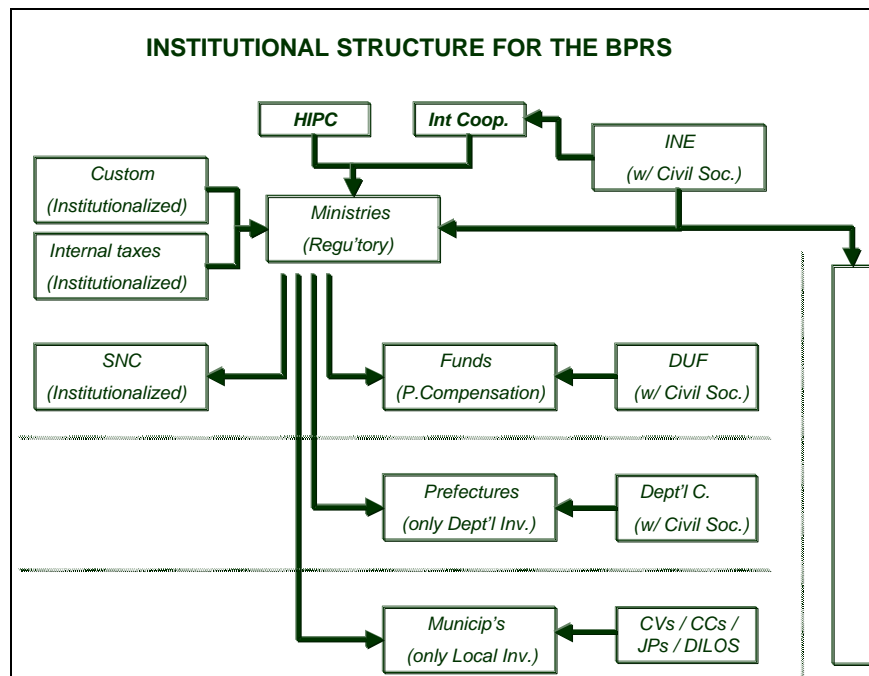
604. Regarding the agencies charged with producing information for monitoring implementation of the BPRS, the process of institutionalizing the INE must be consolidated. This agency must have broad credibility and recognized independence so that the data

produced are reliable and transparent and constitute the basis for an objective evaluation of the progress made in reducing poverty.

605. The BPRS also provides for the institutionalization of the INE through its transformation into an administrative authority the management of which is delegated to a board of directors made up of recognized figures in civil society. In a manner similar to the DUF, the board of directors of the INE will have official representatives from the government but will also have representatives from civil society organizations set up at the national level to exercise social control.

606. In this way, when all these reforms and institutional adaptation policies have been implemented, Bolivia will have an organized institutional structure and incentives and control mechanisms that promote a high level of efficiency in the implementation of the ERBP. The following illustration shows the scheme of the institutional structure anticipated for the Strategy.

Graph 6.4



### Social control

607. National Dialogue 2000 underlined the need for mechanisms for social control over public administration at the national, departmental, and local levels, which would be responsible for monitoring the proper use of resources intended to reduce poverty, as well as ensuring timely performance of the plans and programs of the BPRS.

608. It has been noted that the Vigilance Committees, created in the context of Popular Participation, are suitable mechanisms for exercising social control at the local level, provided they are adequately strengthened and opportunities are minimized for political parties to coopt and interfere with their operations. In addition, it was agreed that at the departmental and national level the Catholic Church, as an institution with high credibility in Bolivia, must call on social institutions to set up a broadly participatory control mechanism.

609. Strictly applying the conclusions reached during the National Dialogue, the BPRS recognizes the need to have these social control measures, which should be institutionalized in accordance with national laws.

610. Social control must be understood as the exercise of a citizen's right, as recognized in the CPE, to obtain access to information on public administration and the ability to seek satisfaction of citizens' legitimate demands and basic needs. Social control must focus attention on verifying the results of public management and must have expeditious and institutional channels for filing complaints or claims whenever necessary.

611. At the local level, Popular Participation has insitutionalized the Vigilance Committee as a mechanism of social control. In the Municipalities Law, this mechanism was strengthened through the creation of a special fund for social control as well as the Local Consultative Committees that will enhance the technical proficiency of the community supervision process. In pursuit of this effort, provision will be made to strengthen the Consultative Committees with representatives from municipal social (functional) organizations and to require that the decisions of the Vigilance Committee regarding subjects relating to the Strategy be referred to these Consultative Committees, thus promoting extensive participation in social control by the beneficiaries.

612. In each of the sectoral areas of the BPRS, the direct beneficiaries will be encouraged to organize forms of participation and control. This is the case with School Boards, Local Health Directorates (DILOS), and producer associations in specific areas.

613. The National Dialogue agreed on the creation of a National Societal Control Mechanism and Departmental Mechanisms in each region that would be convened by the Catholic Church. This involves the creation of civil associations under private law organized on the basis of other societal groups in various sectors (workers, business owners, peasants, indigenous peoples, neighborhood boards, professional associations, unions, NGOs, etc.), the sole common purpose of which will be to exercise social control.

614. These control mechanisms will have technical structures to address the tasks of monitoring, strengthening, and reporting to the various social organizations that will be active participants in the BPRS. The Dialogue Law will explicitly recognize the operation of these mechanisms in order to grant them special powers, particularly responsibility for appointing the representatives from civil society who will participate in the public agencies supervising the BPRS, such as the DUF, the Board of the INE, the Departmental Council, and other public agencies in which the institutional participation of civil society is required.

615. To ensure transparency and participation by the principal actors in decentralization in the DUF, this Board and the agencies for operational approval and supervision will be open to the participation of these entities, incorporating within their structure the representatives of mayoral offices, Vigilance Committee Chairmen, and representatives from civil society, at the national level in the DUF and at the departmental level in the Project Technical Committees.

616. In addition, the new Departmental Council will have powers different from its current powers. Its role will be strictly to oversee the result of the Prefecture's management and it will have the power to obtain access to information on the handling of departmental resources and to submit substantiated complaints in cases where irregularities are identified. Thus, by not directly interfering in the prefecture's administration, the Departmental Council will be able to establish itself as an effective management control instrument.

617. Civil society organized and represented through the social control mechanisms will thus have the institutional channels needed to exercise social control and to gather transparent, firsthand information about public management, the handling of funds intended to reduce poverty, and the implementation of the Strategy's programs and projects. This highly visible role for societal organizations will become an additional incentive ensuring the proper management of public resources and the proper and timely execution and implementation of the BPRS.

#### **D. The Phenomenon of Corruption**

618. Corruption, defined as the inappropriate use of a position or function for non-official purposes, constitutes a fundamental problem for implementation of the BPRS. Corrupt acts drive up transaction costs and increase uncertainty, reducing the country's competitiveness as a whole. They distort incentives, result in inefficient resource allocation, limit the potential benefits associated with membership of the formal sector of the economy, and restrict the competitive options of commercial activities and other activities associated with small business, thus contributing to the uneven distribution of economic benefits.

619. The problem of corruption has come to the fore with the growing public perception of favoritism shown in the areas of public administration. Externally, in 1997 Bolivia was classified as the country with the second highest perception of corruption among 51 countries evaluated by the Corruption Perceptions Index published by the organization Transparency International. This situation has improved over the last 3 years but remains at unsatisfactory levels. Domestically, surveys specifically commissioned in 1998 reported that 86 percent of the Bolivian population considers corruption a serious or very serious problem in the country; this situation has remained virtually unchanged in recent years.

620. Based on these assessments, a specific plan called the National Integrity Plan was formulated to confront the phenomenon of corruption, and implementation of the plan has been underway since 1999. The plan recognizes that the problem of corruption is pervasive

and traceable to the inherent institutional weaknesses of the Bolivian State; furthermore, the plan acknowledges that solving the corruption problem necessarily calls for long-term measures to improve these conditions, to limit opportunities for favoritism and information monopolies, and to increase transparency in public administration.

621. Bolivia has made significant progress with this approach in terms of reducing vulnerability to corruption. Structural reforms to liberalize the economy and increase its competitiveness have to a great extent helped to reduce State monopolies while decreasing the likelihood of corruption. In turn, the independence of institutions like the Central Bank and more recently National Customs has also helped to reduce favoritism in public policy decisions. Although the process of decentralization is still in its initial phase, the creation of mechanisms like the vigilance committees provides alternatives for demonstrating accountability to civil society.

622. However, despite the advances in institutional policies, the perception of civil society points to the need to accelerate measures to reduce corruption. What is needed is a more explicit political commitment to tackling this problem, which highlights the institutional difficulties facing of the State.

623. Implementation of the BPRS should also consider implementing these policies explicitly and on an urgent basis. The National Integrity Plan indicates the areas where these actions must be addressed and implemented. They refer to: (i) consolidation of judicial reforms, (ii) implementation of transparency systems in public administration, and (iii) adoption of specific measures in the areas most vulnerable to corruption.

624. Actions to reform the judiciary must be accelerated to consolidate the truly independent operation of judicial system entities: the Judicial Branch, the Office of the Attorney General [*Ministerio Público*], and the Bolivian Police. To this end, approval of regulations still pending must be completed and programs for the strengthening and institutional development of these entities must be accelerated. To the extent that the judicial apparatus operates in a timely and independent manner, cases of unpunished corruption will be reduced, thus leading the way to achieving a structural solution to the problem.

625. To enhance transparency in public administration, implementation of the administrative career stream under the Civil Service Regulations must be accelerated. It is thus also important to implement the information and financial management systems already developed under systems regulated by the SAFCO Law (Integrated Management and Administrative Modernization System, SIGMA). Finally, the Office of the Comptroller General of the Republic should expand the coverage of results-oriented systems for evaluating public administration.

626. In the areas most vulnerable to corruption, institutionalization programs must be completed, efforts must be made to expedite the implementation of new standards for goods and services management that include transparent measures for goods and services

procurement by public agencies, and the rules established in the Civil Service Regulations for declaring the assets and incomes of State employees must be enforced.

627. In the same context, as identified in the various specialized workshops conducted during National Dialogue 2000, two measures that require reforms to the CPE are particularly important to the objective of reducing corruption and promoting the development of proper institutional systems for Bolivia. The first measure is to eliminate the political parties' monopoly over access to municipal governments. At present this monopoly distorts the exercise of democracy at the local level and promotes unhealthy practices of favoritism and political corruption in municipalities. The second measure is to limit the right of parliamentary immunity, which defeats the whole purpose of the exercise whenever attempts are made to prosecute acts of corruption.

628. To the extent that these policies are implemented, the cause of institutional progress will be served and the political authorities will send clear signals regarding their willingness to correct the problem. Both corruption and the perception of corruption will be overcome, leading to a State that has more legitimacy and credibility in addressing the challenges of poverty reduction.

Matrix 6.1  
Matrix of Priority Actions and Policies  
Strengthening Institutional Structures for the BPRS

Strategic Actions	Action Plan	Regulatory Instrument	Responsible Institution
Deepen Decentralization	Review of division of functions and powers among municipal governments, prefectures and national government	National Dialogue Law	VPEPP
	Transfer of responsibilities for human resources management in education and health to the municipal governments	National Dialogue Law	MECyD, MSPS, MH, VPEPP
	Territorial system	Law Defining Municipal Political and Administrative Division	Inter-Ministerial Commission of Limits (CIL).
Provide progressive structure for resource distribution	Transfer of resources based on formula considering criteria on the Headcount Index of poverty and population	National Dialogue Law	MH DUF
Institutional Adaptation	Continuing institutionalization of National Customs.	----	Office of the Vice President
	Institutionalization of National Road Service (SNC) and Tax Service.	Appointment of Boards of Directors for the SNC and Internal Revenue	MDE, Office of the Vice President
	Inclusion in the DUF of representatives from municipal governments and civil society	National Dialogue Law	DUF
	Consolidation of the INE institutionalization process	Law on Institutionalization of the INE	MH DUF
	Recomposition of Departmental Councils	National Dialogue Law	VPEPP
Social Control	Strengthening of Consultative Committees with representatives from social (functional) organizations	National Dialogue Law	VPEPP
	Recognition of organizations that will be called upon by the Catholic church to organize in order to exercise social control at the departmental and national levels	National Dialogue Law	Office of the Vice President
	Inclusion of representatives from civil society in the DUF, INE and Departmental Councils	National Dialogue Law	Office of the Vice President
Reduce corruption	Consolidation of judicial reforms: independent operation of judicial system entities	Approve Laws on the Office of the Attorney General and the Judicial Branch	MJ
	Application of systems for transparency in public administration: (i) Implement the administrative career stream under the Civil Service Regulations; (ii) implement information and financial management systems under the SAFCO Law	Approve Decree on Sworn Statement of Assets Implement SIGMA in Public Admin.	CGR, MH.
	Elimination of political parties' monopoly on access to municipal governments	Modifications to the CPE	National Congress
	Regulation of the right of parliamentary immunity	Modifications to the CPE	National Congress

-----Actions that do not require regulatory instruments or that already have regulations.



## VII. RESOURCE ALLOCATION AND FINANCING MECHANISMS OF THE BPRS

629. The resource allocation and financing mechanisms proposed in the BPRS incorporate criteria relating to efficiency, equity, participation and transparency. The move toward Administrative Decentralization and Popular Participation, the compensation policy of the DUF<sup>73</sup> and the progressive allocation of HIPC II resources to the poorest municipalities mean that an increasing percentage of public investment is executed by decentralized levels.<sup>74</sup> In particular, municipal governments and prefectures will make decisions regarding the programs and projects to which they will allocate their resources on the basis of their own requirements and demands.

630. Current expenditures will also be handled in a more decentralized way. Resources will be transferred to the municipal governments so that they can hire and manage (within their jurisdictions and powers) the teaching and administrative personnel in the system of public education, as well as medical, paramedical and administrative personnel in the primary and secondary care centers of the public health system.

631. Achievement of the goals proposed in the Strategy will be linked not only to decisions at the central level but will be fundamentally dependent on the departmental and local agencies that must allocate greater resources to defined priorities. For this reason, actions are proposed to accelerate the decentralization process<sup>75</sup> and to develop an institutional environment that can coordinate new jurisdictions and fiscal relationships among the three levels of administration (central, departmental and municipal).

632. The Strategy places special emphasis on the sustainability of investments that must be supplemented with resources directed to operation, maintenance and repair.<sup>76</sup> These expenditures, according to preliminary estimates, represent about 7 percent of GDP, which is insufficient considering the characteristics of national public investment and the growth of investments (particularly in social infrastructure and roadways).

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<sup>73</sup> The resource allocation policy to be used by the DUF is explained later in this chapter.

<sup>74</sup> It is estimated that about 62% of executed public investment represents municipal governments and departments (investment by prefectures and Regional Co-Financing from Investment Funds). As indicated, this trend is growing.

<sup>75</sup> For detail on proposed actions in the area of decentralization, see the chapter on Institutional Framework.

<sup>76</sup> A detailed analysis of this subject is developed in the Bolivian document: Public Expenditure Review (PER), Report No. 19232-BO, World Bank, 1999.

633. Ensuring the availability of recurrent expenditures is especially important as part of the financing for investment projects comes from foreign loan funds with a limited time horizon. Once the allotted time has elapsed, it is essential to have current resources for the proper operation of investments and in this way to ensure a lasting impact.

634. A portion of social investment is financed with foreign funds, while current expenditures are basically financed with domestic funds. Most of the funding organizations direct their efforts to new investments and technical assistance and do not always consider the possibility of allocating funds for current expenditures, particularly for maintenance, operation, and repair of investment projects. Fiscal constraints make it difficult to have sufficient resources for the national counterparts of such programs and this situation prompts the need to analyze the sustainability of investments.

635. The success of the BPRS is subject to the ability to redirect resources toward the chosen priorities. Inflexibility in public expenditures (current salary expense and the cost of reforms, particularly pension reform) and the conditional nature of foreign financing do not always make it possible to reallocate resources pertaining to specific projects or to expedite disbursements. The New Framework of Relationships between the Government and Bolivia's International Cooperation Partners is a tool for overcoming these obstacles.<sup>77</sup>

#### **A. Resource Allocation Mechanisms**

636. Over the next 6 years approximately US\$1,870 million will enter Bolivia in the form of disbursements from foreign financing for projects now being implemented. Debt relief (HIPC I and II) will make US\$1,573.7 million available for poverty reduction over the next 15 years (an annual average of US\$104.9 million). Thus, mechanisms must be established to allocate resources on the basis of efficiency and equity criteria.

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<sup>77</sup> An evaluation of progress made in the New Framework appears in the document, Annual Report for the XIII Consultative Group, Paris, October 2000.

Table 7.1  
Resources for Poverty Reduction  
(In millions of \$US)

Description	Balance to be Disbursed as of 12/31/99	Estimated Years for Disbursement
Total HIPC I & II funds	2,324	
HIPC I Funds (1)	1,024	38
HIPC II Funds	1,300	15 – 40 (2)
Foreign funding balances undisbursed as of 12/31/99	1,870	6
Including: DUF (3)	120	
<b>Total funds</b>	<b>4,194</b>	

(1) Preliminary figure.

(2) 81.2% of the relief will become effective in 15 years.

(3) Preliminary annual information provided by the DUF.

Source: Prepared on the basis of information from UDAPE and VIPFE.

637. In order to achieve a greater impact from the programs, a results-oriented management and evaluation approach should be implemented in the central government, the prefectures, and the municipalities. It will thus be possible to accelerate the attainment of objectives, with timely and adequate budgetary allocations. The process of formulating institutional budgets must be geared toward management objectives in order to avoid criteria such as historical execution.

638. To improve the procedures for incorporating programs and projects in the General Budget of the Nation, for making counterpart funds available and for budgetary reformulation, it is suggested that multi-year budgets be developed for the programs and projects given priority in the BPRS. These reforms will be implemented gradually based on results achieved. Adjustments will be incorporated and implementation of the Strategy will be improved.

639. The allocation of public resources requires a process of rationalization in the utilization of public investment funds.<sup>78</sup> For this purpose, it will be necessary to consolidate

<sup>78</sup> This process was presented in the Annual Report for the XIII Consultative Group, Paris 2000.

projects in programs within a sector<sup>79</sup> and to channel resources to the municipalities based on the National Compensatory Policy designed by the DUF.

640. The rationalization of resources considers the following steps: definition of goals associated with strategic actions, impact analysis, identification of problems and submission of proposals for reallocation based on efficiency criteria. This process must also be implemented in prefectures and municipalities.

641. Public investment is funded in part by cooperation agencies whose programs and projects are not necessarily consistent with sectoral priorities. The BPRS identifies these priorities and proposes a gradual reallocation of foreign resources in order to achieve goals in these areas. By allocating resources to be disbursed based on the priorities defined in the BPRS, it was determined that 82 percent (US\$1,536 million) of the balance to be disbursed as of December 1999 corresponds to the Opportunities and Capacities components.

Table 7.2  
Availability of Funds from Foreign Financing  
for Investment, Institutional Strengthening and Technical Cooperation by Strategic  
Component  
(In millions of current dollars)

Strategic Component	Amount Committed	Balance to be Disbursed
1. Employment and income opportunities	1,663	781
2. Capacities	1,187	755
3. Safety and protection of the poor	148	39
4. Participation and social integration	63	31
5. Institutional structures	234	132
6. Cross-cutting issues (gender, ethnicity & ...)	188	131
7. Others	6.7	0.8
<b>Total BPRS</b>	<b>3,490</b>	<b>1,870</b>

Source: Developed on the basis of information from the VIPFE (revised by International Cooperation agencies).

642. The Investment and Development Funds, recently restructured based on the formation of the DUF, will provide financial support through credits and co-financing for different municipal projects according to the components defined in the BPRS.

643. The Productive Investment and Social Fund (based on the structure of the FIS) will make it possible to co-finance the execution of projects submitted by the municipal

<sup>79</sup> It is suggested that projects be grouped together in order to prevent the financing from being managed in an uncoordinated manner.

governments in education, health, basic sanitation, rural energy, and other sectors given priority in the BPRS. In addition, the Productive Investment and Social Fund will offer technical assistance to the municipalities that request it. The FNDR will only grant credit resources to prefectures and municipal governments for the execution of investment projects or programs and may not make nonreimbursable transfers.

644. The institutional restructuring of the DUF will allow the execution of about US\$120 million each year (approximately one-sixth of current total public investment) and one-fourth of public sector disbursements estimated for upcoming years.

#### **Criteria for distributing debt relief funds (HIPC II)<sup>80</sup>**

645. With the decision to distribute HIPC II funds based on poverty criteria, funds will be allocated more progressively, favoring the poorest groups. This decision is consistent with the growing role of the municipalities in providing local public goods based on Administrative Decentralization. This situation demonstrates the need to implement compensatory schemes that favor poor municipalities to complement horizontal equity generated on the basis of per capita allocation applied to resources from tax revenue-sharing.

#### **Compensatory policy: resources administered by the DUF**

646. The National Compensatory Policy states that total aggregate amounts to be transferred to design and implement programs and projects under municipal jurisdiction must satisfy the following distribution criteria: 70 percent of total resources must be distributed among all the country's municipalities based on poverty indicators and the remaining 30 percent must be distributed in equal parts among the nine departments and within each department among the respective municipalities based on poverty indicators.

647. The poverty indicator to be used will be Unsatisfied Basic Needs (UBN), which gives greater weight to the poorest population in each municipality. Thus, the DUF's resource allocation criteria are the same as those agreed upon in National Dialogue 2000.

648. The DUF has designed a National Compensatory Policy that provides a mechanism for allocating resources based on relative prices.<sup>81</sup> Varied co-financing rates (to be determined for each sector) are established based on the level of poverty in each municipality, plus an additional incentive if projects are submitted through a *mancomunidad*.

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<sup>80</sup> The mechanism for allocating HIPC II relief funds is explained in detail in Chapter VI: Progressive Distribution of Resources.

<sup>81</sup> The relative prices defined in CONAPE Resolution 06/2000 reflect the State's commitment to cofinancing social projects in the municipalities.

649. This mechanism will make it possible for the poorest municipalities to obtain access to resources with a lower counterpart percentage.<sup>82</sup> The counterpart rates will be modified every 3 years.

650. DUF resources will be allocated to the municipalities based on equity criteria. Eligible projects will be established by the different sectors and must be consistent with the priorities defined in the BPRS.

651. Implementing the Compensatory Policy requires more flexible foreign funds in order to facilitate reallocation based on priorities and results; moreover, it requires simpler and more uniform contracting mechanisms to promote decentralized project management, as well as compliance with resource allocation formulas to guarantee equity and transparency.

652. In order to avoid distortions in implementing the compensatory policy, the plan is to gradually enhance the transparency and uniformity of all transfers granted to the municipalities by the central government, the prefectures and international cooperation partners, eliminating arbitrary and discretionary allocations.

653. As a specialized fund for administering compensatory transfers from the national government, the FPS will begin to delegate its administrative tasks to the municipalities themselves and will set itself up as an agency that regulates financing through conditional transfers, fine-tuning the mechanisms to ensure the application of a comprehensive compensatory policy that is subject to evaluation and social control.

#### **Criteria for distributing the resources of the public investment program**

654. Starting in 2001, the Public Investment Program must be allocated based on the priorities established in the BPRS (Road Infrastructure, Rural Development, Microenterprise and Microfinance, Land Access and Tenure, Education, Health, Basic Services, Comprehensive Childcare, and gender and ethnic programs). It will be important to move ahead gradually to reach agreements with bilateral and multilateral cooperation partners in order to reallocate domestic and foreign resources.

655. The BPRS requires the redistribution of public investment resources based on the priorities defined in each component, in accordance with criteria of efficiency and greater targeting. For this reason, the allocation of public investment will be dynamic inasmuch as annual adjustments will be made as a result of evaluating attainment of the Strategy's proposed goals.

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<sup>82</sup> This proposal is important in that in Dialogue 2000 the poor municipalities indicated their disagreement with the high counterpart percentages the Development Funds require to finance social projects.

656. The agreed upon counterpart percentages will be revised and consideration will be given to the possibility of reducing them in order to achieve the execution of available resources. In terms of budgetary performance, one of the problems that made it impossible to accelerate the disbursement of funds from international cooperation partners has to do with the inability to leverage these funds due to a lack of national counterpart funds.

657. In addition, the projects portfolio must be reviewed in order to classify the projects according to the components and subcomponents of the BPRS, as well as to analyze the scope for enhancing the flexibility of the rules governing public investment so that investment can be adapted to the requirements of the Strategy.

658. Resources entering Bolivia thereafter must be consistent with the components of the BPRS and a technical brief must be submitted describing their contribution to reducing poverty.

### **B. Financing the BPRS**

659. The estimates of financing required by the BPRS were performed on the basis of the current structure of public investment programs and projects, projected revenues and expenditures (capital and current) developed by the Fiscal Programming Unit (UPF) of the Ministry of Finance, as well as disbursements and donations provided in the macroeconomic scenarios developed by the Central Bank.

660. For the base year (2001), the projects recorded under the Public Investment Program were classified according to the components and subcomponents of the Strategy, and codes were assigned to facilitate their identification in the monitoring and financial execution process. In addition, priority projects were specified in each component.

661. Once the required financing estimates were developed on the basis of the components established in the Strategy, it was found that more foreign and domestic resources will be needed in order to attain and/or ensure attainment of the proposed goals and achieved the desired effects on poverty reduction and integration.<sup>83</sup>

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<sup>83</sup> In addition to considering macroeconomic scenarios, estimates were made on the basis of unit costs and other information in order to calculate estimates of the resources needed to achieve the specific goals established in the Strategy. These results are preliminary in the sense that they reflect the information currently available, which is not always sufficient to determine with precision the costing of the priority actions of the BPRS. For this purpose, more and better information is needed, particularly from the municipalities. However, this exercise is useful as a basis so that unit cost calculations can be completed and refined initially and later revised each year to estimate the minimum resources that the Strategy must have to achieve the specific goals proposed. These calculations will be performed for areas that clearly do not have assured financing as yet (or not in the amounts needed) such as rural electrification (second phase), road infrastructure (integration corridors), maintenance of

(continued)

662. Accordingly, in light of public sector restrictions on financing the investment plan required by the strategic components, the BPRS assigns an important role to the private sector so that it will undertake part of the construction and maintenance of infrastructure. Furthermore, consideration is being given to the possibility of having certain MYPEs construct and maintain certain sections of the local roads network while ensuring that beneficiaries contribute their own resources in the interests of greater development of rural electrification.

663. The priorities identified in the BPRS as a result of the diagnostic assessment and National Dialogue 2000 reflect the need to accelerate and strengthen reforms and actions in the execution phase. They also show the importance of starting new actions that should take the form of specific short-term programs and projects.

664. The financing of the Strategy must reflect both requirements (accelerated reforms and start of new projects). The established priorities and goals require gradual adaptation of public resources (current expenditures and investment) in order to achieve the proposed poverty reduction objectives.

665. Given that HIPC II resources will be allocated to the municipal governments, they must be allocated to the priorities defined in the BPRS.<sup>84</sup> The new resources coming from other sources will be allocated to the priorities of the Strategy.

666. The BPRS takes the view that foreign resources (foreign disbursements from credits and donations) as well as domestic financing intended for investments will generate the recurrent expenditures needed to ensure the sustainability of investments. These current (or recurrent) expenditures are cumulative from fiscal year to fiscal year in that they take account of the repair and maintenance requirements for investments made in earlier years. In addition, it is assumed that investments will account for nearly 100 percent of the annual programming, particularly in priority areas.

667. The estimate of recurrent expenditures makes it possible to design an ideal matrix of current expense financing, linked to investments, given that only part of these expenditures (representing natural growth in current expenditures) is included in the financial flows of the Non-Financial Public Sector (SPNF).<sup>85</sup> The availability of resources to finance additional

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local roads and land tenure. These areas are also associated with the priorities identified in National Dialogue 2000. However, as will be explained later, the financing of these and other programs and projects that arise in the implementation of the BPRS are subject to the framework established in the PEB.

<sup>84</sup> Issue covered in the Dialogue Law.

<sup>85</sup> It was decided to perform this exercise due to the importance of ensuring the sustainability of investment and permanent outcome effects.



recurrent expenditures is contingent primarily on increased tax collections and enhanced flexibility in the application of International Cooperation resources.

668. Thus, sectors and components identified as priorities will receive greater resources over time. Particular emphasis is placed on the construction, rehabilitation, and maintenance of local and primary network roads, rural electrification (PRONER), support for microenterprises, acceleration of educational reform, primary health care for children and women (SBS), treatment and prevention of endemic diseases (Epidemiological Shield), and provision of drinkable water and sewer systems in rural areas (PROSABAR).

### **Results obtained**

669. The estimates that are compatible with the macroeconomic scenarios indicate that public investment for strategic components would amount to US\$4,363.2 million during the period 2001–2006.<sup>86</sup> If this projected investment is realized, US\$1,710 million will be needed to properly operate, maintain, and repair the investment. Considering projected foreign financing for institutional strengthening not included in the Public Investment Program and the 50 percent of HIPC II relief funds that will presumably be allocated to current expenditures, total current expenditures would amount to US\$2,106.5 million.

670. In addition, to ensure attainment of specific goals in areas that do not have financing as yet (or at least not in the amounts required) and which pertain to rural electrification, road infrastructure, securing of title to lands, and local roads, additional resources in the amount of US\$889 million will be required in the period 2001–2006.<sup>87</sup> This means that the Strategy will require about US\$7,360 million for that period.

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<sup>86</sup> See the respective annex for more detail.

<sup>87</sup> See the respective annex for more detail.

Table 7.3  
BPRS: Projected Investment (1) and Recurrent expenditures  
by Strategic Component 2001–2006 (2)  
(In millions of current dollars)

Component/Item	Baseline Macro Scenario 2001 – 2006			Additional Requ.'s 2001 - 2006			Total 2001 - 2006		
	Total Inv.	Curr. Total	Inv. & Curr. Total	Total Inv.	Curr. Total	Inv.& Curr. Total	Total Inv.	Curr. Total	Inv.& Curr. Total
Opportunities	2,006.7	432.2	2,439.0	829.6	59.4	889.0	2,836.3	491.6	3,328.0
Capacities	1,725.3	1,111.8	2,837.0	---	---	---	1,725.3	1,111.8	2,837.0
Protection and Security	200.6	81.4	282.0	---	---	---	200.6	81.4	282.0
Social Participation	10.2	5.7	15.9	---	---	---	10.2	5.7	15.9
Cross-Cutting Issues (gender and ethnicity)	141.8	9.0	150.9	---	---	---	141.8	9.0	150.9
Institutions	64.6	3.6	68.2	---	---	---	64.6	3.6	68.2
HIPC II relief	214.1	66.3	280.3	---	---	---	214.1	66.3	280.3
<b>Total BPRS (Inv.&amp;recurr. exp. related to inv.)</b>	<b>4,363.2</b>	<b>1,710.0</b>	<b>6,073.2</b>	<b>829.6</b>	<b>59.4</b>	<b>889.0</b>	<b>5,192.8</b>	<b>1,769.4</b>	<b>6,962.2</b>
HIPC II relief funds bprs (municipalities)	---	214.1	214.1	---	---	---	---	214.1	214.1
For. Fin. Funds unrelated to Inv. for Instit. Strengthening	---	182.5	182.5	---	---	---	---	182.5	182.5
<b>Total Current Expenditures Related to the BPRS</b>	<b>---</b>	<b>396.5</b>	<b>396.5</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>396.5</b>	<b>396.5</b>
<b>BPRS and current expenditures</b>	<b>4,363.2</b>	<b>2,106.5</b>	<b>6,469.8</b>	<b>829.6</b>	<b>59.4</b>	<b>889.0</b>	<b>5,192.8</b>	<b>2,165.9</b>	<b>7,358.8</b>

671. As indicated in the strategic actions of the BPRS and bearing in mind that the fiscal balances proposed in the baseline macroeconomic scenario must hold steady, the private sector will play an important role in financing the BPRS. For this reason, the goals of the Strategy include granting the private sector concession arrangements (for construction and maintenance) in regard to highway sections of the primary network.<sup>88</sup> In addition, greater private sector participation will be promoted in the construction, rehabilitation and maintenance of local roads, which can be carried out by local MYPEs, as will larger contributions from communities and municipalities to support rural development through the DUF.

<sup>88</sup> The 2001 Action Plan of the Ministry of Sustainable Development indicates that 2,370 kilometers of highway will be granted under concessions. Construction of the San José - Puerto Suárez section will be carried out through a private sector concession and will involve 371 kilometers of the fundamental network.

672. If resources were available to finance all the recurrent expenditures that result from estimated investments, it is estimated that implementation of the BPRS for investments during the period 2001-2006 amounts to US\$5,192.8 million and that sustainability of the investments (current expenditure) amounts to US\$1,769.4 million (excluding foreign financing for institutional strengthening or current expenditures under HIPC II relief funds).

673. The capacities component shows a high level of current expenditures reflecting the characteristics of investments in the health, basic services and education sectors, the operation and maintenance of which require a significant wage component (particularly in education and health). According to World Bank estimates, the highest recurrent expense ratios are for health and basic services (0.25) and education (0.22), sectors that are included under capacities.<sup>89</sup>

Table 7.4  
BPRS: Projected Investment (1) and Recurrent expenditures  
by Strategic Component 2001–2006 (2)  
(Percentage structure)

Component/Item	Total (% Structure) 2001–2006		
	Total Inv.	Curr. Total	Inv.& Curr. Total
Opportunities	46.0	20.5	37.7
Capacities	39.5	52.8	43.9
Protection and security	4.6	3.9	4.4
Social participation	0.2	0.3	0.2
Cross-cutting issues (gender and ethnicity)	3.3	0.4	2.3
Institutions	1.5	0.2	1.1
HIPC II relief	4.9	3.1	4.3
Total BPRS (inv.& recurr. exp. relating to inv.)	100.0	81.2	93.9
HIPC II relief funds BPRS (municipalities)	0.0	10.2	3.3
For. fin. funds not assoc. w/ inv. for inst. Strengthening	0.0	8.7	2.8
Total current expenditures associated w/ BPRS	0.0	18.8	6.1
BPRS and current expenditures	100.0	100.0	100.0

Source: Estimates based on UPF, VIPFE and BCB information.

(1) It is estimated that public investment related to the BPRS represents 97 percent of total public investment.

(2) Includes HIPC II relief funds starting in the year 2001 and foreign financing resources for institutional strengthening unrelated to public investment.

<sup>89</sup> The recurrent expenditure ratios of 0.25 for basic services and health and 0.22 for education show that for each dollar invested in these sectors, 25 and 22 cents, respectively, are needed each year for operation and maintenance.

674. Domestic efforts to collect revenues will probably be insufficient to finance all recurrent expenditures. Thus, the BPRS suggests that Bolivia's International Cooperation partners introduce greater flexibility in the counterpart resources required for programs associated with the priority strategic objectives and recommends that the cooperation partners agree (for defined periods and until Bolivia can gradually increase domestic resources) to commit a portion of its funds to recurrent expenditures for the sustainability of investments.

Table 7.5  
BPRS: Financing of Public Investment Associated with  
Strategic Components 2001– 006 (Baseline macroeconomic scenario)  
(In millions of current dollars)

Item	2001	2002	2003	2004	2005	2006	2001 - 2006
Public investment BPRS	629.9	654.6	658.2	729.5	807.0	884.1	4,363.2
Domestic financing	308.7	308.7	310.8	363.5	452.6	534.4	2,278.8
Foreign financing	321.3	345.9	347.4	365.9	354.4	349.7	2,084.5
Including:							
Disbursements and donations (1)	303.0	306.1	308.3	326.5	316.1	310.4	1,870.4
HIPC II relief	18.3	39.8	39.1	39.4	38.3	39.3	214.1

Source: Estimates based on UPF, VIPFE and BCB information.

(1) Includes HIPC I relief funds.

675. The domestic component of public investment associated with the Strategy in the period 2001–2006 would amount to US\$2,278,8 million (52.2 percent of the total), while the foreign component would be US\$2,084.5 million (47.8 percent).

676. The domestic resources associated with the opportunities component would amount to 50.2 percent of total domestic financing, while with respect to capacities the investment financed from domestic sources would amount to 43.2 percent. The components that show the highest amounts of investment are opportunities and capacities, a situation that reflects the characteristics of the investment programs included, which basically involve productive and social infrastructure.

677. In the case of additional investments, these may be executed under a financing scheme that does not weaken the macroeconomic balances established in the baseline scenario. Accordingly, it is proposed that: (i) policies be developed to increase tax collections, (ii) Bolivia's access to concessionary credits be generally extended, (iii) the private sector participate in the construction and maintenance of infrastructure and, (iv) public investment programs and projects with less impact on reducing poverty be redirected to the priorities defined in the BPRS.<sup>90</sup>

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<sup>90</sup> This subject is discussed in detail in Chapter X.

Table 7.6  
BPRS: Projected Investment by Strategic Component  
by Financing Sources 2001– 2006 (Baseline macroeconomic scenario)  
(In millions of current dollars)

Item/Source	2001	2002	2003	2004	2005	2006	2001 - 2006
Opportunities	286.6	288.4	291.0	334.2	383.6	431.1	2,014.7
Domestic Resources	146.5	146.6	147.8	180.6	235.9	286.8	1,144.2
Foreign Resources	140.1	141.8	143.1	153.6	147.6	144.3	870.5
Capacities	258.8	259.9	261.5	286.9	314.6	341.5	1,723.2
Domestic Resources	138.8	138.8	139.5	158.2	189.8	218.8	983.8
Foreign Resources	120.0	121.1	122.0	128.7	124.9	122.7	739.4
Protection and safety	30.8	30.9	31.0	33.0	34.3	35.7	195.6
Domestic resources	12.4	12.4	12.4	13.5	15.3	16.9	82.8
Foreign resources	18.4	18.5	18.6	19.5	19.0	18.7	112.8
Social participation	1.7	1.7	1.7	1.7	1.7	1.7	10.2
Domestic resources	1.1	1.1	1.1	1.1	1.1	1.1	6.7
Foreign resources	0.6	0.6	0.6	0.6	0.6	0.6	3.5
Cross-cutting issues (gender, ethnicity, environ.)	23.1	23.2	23.2	23.5	23.8	24.1	140.9
Domestic resources	8.4	8.4	8.4	8.6	9.0	9.3	52.1
Foreign resources	14.7	14.8	14.8	14.9	14.8	14.8	88.8
Institutional area	10.8	10.8	10.8	10.8	10.8	10.8	64.6
Domestic Resources	1.5	1.5	1.5	1.5	1.5	1.5	9.2
Foreign Resources	9.2	9.2	9.2	9.2	9.2	9.2	55.4
Total BPRS (w/o HIPC II)	611.7	614.8	619.1	690.1	768.7	844.8	4,149.2
Domestic resources	308.7	308.7	310.8	363.5	452.6	534.4	2,278.8
Foreign resources	303.0	306.1	308.3	326.5	316.1	310.4	1,870.4
HIPC II relief	18.3	39.8	39.1	39.4	38.3	39.3	214.1
Domestic resources	0.0	0.0	0.0	0.00	0.0	0.0	0.0
Foreign resources	18.3	39.8	39.1	39.4	38.3	39.3	214.1
Total BPRS (w/ HIPC II)	629.9	654.6	658.2	729.5	807.0	884.1	4,363.2
Domestic resources	308.7	308.7	310.8	363.5	452.6	534.4	2,278.8
Foreign resources	321.3	345.9	347.4	365.9	354.4	349.7	2,084.5

Source: Estimate based on UPF, VIPFE and BCB information.

## VIII. GOALS, MONITORING AND EVALUATION OF THE BPRS

### A. Indicators and Goals

678. The BPRS makes provision for measures involving the allocation of resources that will have a medium- and longer-term impact on poverty. The effectiveness of such actions must be guaranteed through implementation of a Monitoring System that uses indicators and goals that will make it possible to measure the progress of the Strategy as well as indicators for evaluating impact and results.

679. Progress made by the BPRS will be measured in terms of the proposed goals and will depend on economic growth, the degree of headway in implementing policies, the availability of financing, and the extent to which units of government prove able to mobilize resources based on the priorities established in the Strategy.

680. In addition, it is proposed that a municipal system of indicators be developed to monitor and measure progress in reducing poverty in each municipality. This information will become a fundamental input for social control and will improve results-oriented municipal management based on the observation of progress made in reducing poverty.

681. The goals reflect a long-term horizon while encompassing completion of the action plan. They make provision for measures at the central government level which are to serve as guidelines for the municipal government level and for civil society. The effect of greater incentives for decentralization, which is expected to lead to greater efficiency in resource allocation, must be evaluated to the extent that the implementation of the BPRS is consolidated at the local level.

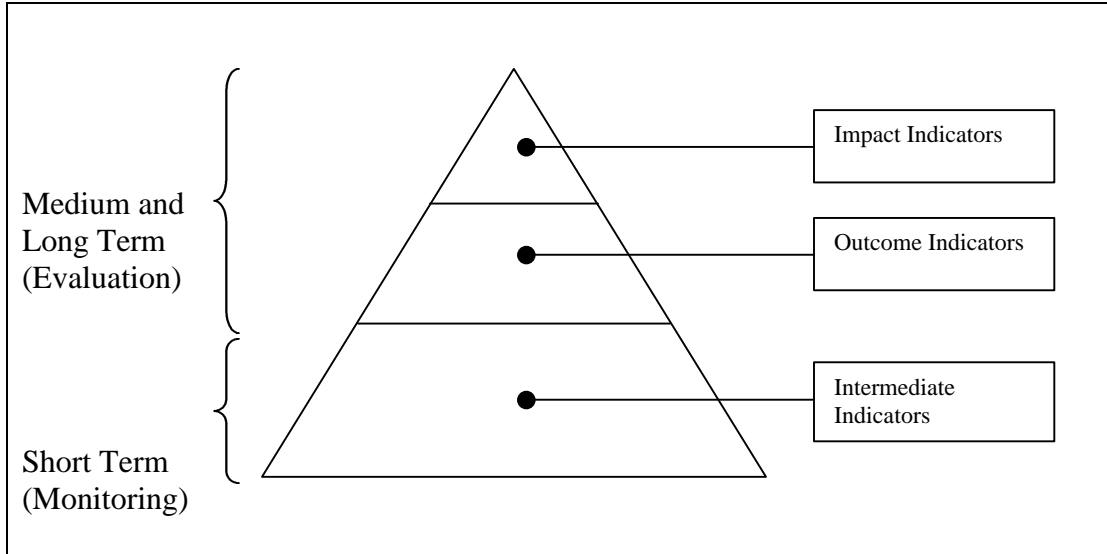
#### **Structure of indicators**

682. The Strategy establishes the creation of indicators at three levels: (a) Impact, (b) Outcome, and (c) Intermediate. These indicators are interrelated and their measurement will be ongoing and based on various sources of information, particularly censuses, surveys and administrative records. The structure presented is consistent with the actions contemplated by the Strategy.

683. Impact indicators summarize changes in the dimensions of poverty. These indicators express the result of economic and social determinants of the population's levels of well-being and afford an overall view of poverty reduction. Changes in these indicators will become more conspicuous over the medium and long terms and are related to goals the attainment of which is not purely contingent on priority programs but is also determined by exogenous factors as well.

684. Outcome indicators are evaluation measures that supplement the impact indicators in order to observe the effects of the Strategy in shorter periods. A high correlation between outcome indicators and impact indicators is assumed.

Graph 8.1  
Hierarchical Structure of the Indicators of the BPRS



685. Intermediate indicators are associated with the outcome indicators and are closely related to the action plans. To help pinpoint goals, entities responsible for achieving them have been identified.<sup>91</sup> The goals presented below summarize supply and demand factors.<sup>92</sup>

### Goals for impact indicators

686. It is anticipated that levels of well-being among the poor population will improve around the period 2001–2006, with increased average family *per capita* income, higher educational levels and a better health situation.

687. The projected impact and outcome indicators were based on economic growth rate and the degree of urbanization. The results point to a reduction in national poverty (as measured by incomes) at levels similar to those average levels currently encountered for

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<sup>91</sup> The breakdown of institutional responsibilities and annual goals appears in the corresponding annex.

<sup>92</sup> Supply factors are issues affecting the provision of services (health centers, classrooms, sanitation infrastructure, etc.) and demand factors are issues affecting the use of services (family incomes and sociodemographic variables).

Latin America. It is expected that the Headcount Index of poverty will reach 41 percent and that indigence will reach 17 percent by the year 2015.<sup>93</sup>

688. Attainment of the poverty reduction goals depends on improvements in employment and income conditions, especially for small producers. Greater capacities (particularly higher levels of schooling) will reduce poverty to the extent that social programs are consolidated and the labor market is able to absorb a larger percentage of the skilled labor force.

689. Actions to promote rural development will have a significant effect on reducing poverty. Rural poverty will decline by 30 percentage points, reaching 52 percent in 2015 from its current level of 82 percent. It is expected that the percentage difference between urban poverty and rural poverty will decrease from 30 points (1999) to 20 points (2015).

Table 8.1  
Goals for Impact Indicators

Description	Breakdown		Goals					
			Base Year		2000	2005	2010	2015
			Year	Figure				
1. Per capita rate of GDP growth	National level		1999	-1.7	0.1	2.8	3.5	3.6
2. Headcount Index of Poverty (measured by income)	Poverty	National	1999	62.7	62.4	55.8	47.9	40.6
		Urban	1999	51.5	50.4	45.5	41.0	37.0
		Rural	1999	81.6	79.3	68.9	59.9	52.0
	Extreme Natl. (1)	Pov.	1999	36.5	36.2	29.7	22.8	17.3
3. Life Expectancy (2)	National		1998	61.9	62.7	65.1	67.1	68.9
4. Percentage of population with 8 or more years of schooling (2)	National		1999	50.7	51.6	56.3	61.4	67.0
5. Headcount Index of Poverty (Measured by UBN) (3)	National		2001	-	-	-	-	-

(1) Based on the international goal, extreme national poverty will decrease by half by the year 2015.

(2) A gender breakdown is possible but no goals were set.

(3) Poverty reduction goals according to urban and rural UBN will be based on results from the 2001 Census.

690. Education and health levels will improve considerably. Children spending more years in school and in better quality education will allow the population with eight or more years of schooling to rise from 50.7 percent in 1999 to 67 percent in 2015.

<sup>93</sup> The calculation method is found in the annex on poverty projections.



691. Life expectancy will increase from 62 years in 1998 to 69 years in 2015 as the result of a decline in the infant mortality rate, lower maternal mortality and improved control of transmissible diseases.

### **Goals for outcome indicators**

692. The goals for these indicators are consistent with the intermediate indicators. As a result rural development and economic growth actions, *per capita* family income is expected to increase up to 50 percent in the year 2015.

693. The availability of water, greater institutional coverage of pneumonia treatment in children under one year and nutritional programs for pregnant women to prevent low birth weight will make it possible to reduce the infant mortality rate from 67 per 1,000 live births in 1998 to 40 per 1,000 live births in the year 2015. Expanded coverage of adequate prenatal care and institutional childbirth will make it possible to reduce the maternal mortality rate from 390 per 100,000 live births in the year 1994 to 200 per 100,000 live births in the year 2015.<sup>94</sup> Actions in the second cycle of spraying to prevent the spread of Chagas' disease in endemic areas will make it possible to reduce the rate of infestation from 60 percent in the year 1999 to 5 percent in the year 2015.

694. The strengthening of primary education will foster continued attendance and improve the quality of education. Activities under the Education Reform Program will help to reduce the dropout and grade repeater rates, reducing academic lag by 13 percentage points by the year 2015, a situation that will also be reflected in continuing school attendance, which will increase until reaching 90 percent in that same year. Curriculum change and better teacher training and instruction will make it possible to reduce the percentage of students whose academic performance is unsatisfactory. This percentage will fall to 16 percent in mathematics and 8 percent in language arts.

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<sup>94</sup> These goals are more ambitious than those established at the Cairo and Beijing Summits.

Table 8.2  
Goals for Outcome Indicators

Description	Breakdown	Goals					
		Base year		2000	2005	2010	2015
		Year	Figure				
2.1. Per capita family income (in 1999 dollars)	National	1999	750	750	798	944	1127
3.1. Infant mortality rate (per 1,000 live births)	National	1998	67	58	50	45	40
3.2. Maternal mortality rate (per 100,000 live births)	National	1994	390	374	304	246	200
3.3. Residential infestation by Chagas disease (as a percentage)	Headcount Index Areas (1)	1999	60.0	51.4	23,6	10.	5.0
4.1. Academic delay	National	1999	44.0	42.8	37.7	35.67	30.8
4.2. Continued school attendance in first cycle of primary school (promotion to 4 <sup>th</sup> )	National	1999	64.6	69.9	80.0	84.9	90.2
	Urban	1999	67.4	73.3	83.4	87.5	91.9
	Rural	1999	61.8	66.7	76.9	82.5	88.5
4.3.a. Students with at-risk academic performance in language arts	National	2000	23.4	23.4	13.4 <sub>(2)</sub>	8.4 <sub>(3)</sub>	-
4.3.b. Students with at risk academic performance in mathematics	National	2000	27.6	27.6	19.6 <sub>(2)</sub>	15.6 <sub>(3)</sub>	-

(1) Geographic areas where the disease is reported.

(2) Data for the year 2006 since the calculation will be done every 3 years.

(3) Data for the year 2009 since the calculation will be done every 3 years.

### Goals for intermediate indicators<sup>95</sup>

695. The intermediate indicators are associated with programs and projections contained in the BPRS action plan and thus represent a monitoring instrument. The effectiveness of actions will be reflected in the outcome indicators and more indirectly in the impact indicators. The goals were set in coordination with the sectoral ministries, based on projections and experiences in other countries.

<sup>95</sup> The corresponding annex describes the goals, technical briefs, responsible institutions and determining factors in the evolution of each indicator.

696. For monitoring purposes, the intermediate indicators have been grouped together according to the four strategic components (opportunities, capacities, security, and participation). Three cross-cutting themes are also included: ethnicity, gender and the environment. The priority actions in each strategic component can affect each of the dimensions of poverty. Thus, for example, increased incomes in rural areas not only expand opportunities for the poor, they also give families more and better access to education and health services and this helps to build their capacities.

*(i) Component 1: Expand Employment and Income Opportunities*

697. Income and employment opportunities for the poor will be expanded by promoting rural development, supporting micro- and small enterprises, developing microfinance, and providing better access to domestic and foreign markets through more and better road infrastructures.

698. Indicators are considered in the sectors of: (a) rural development, (b) road infrastructure, and (c) microfinance. There are specific quantitative and qualitative indicators that bring strategic actions and policy measures together.

699. It is felt that developing and strengthening MYPEs as well as supporting technological assistance basically requires having the appropriate regulatory environment. Developing quantitative indicators in the case of the MYPEs requires private sector participation and the development of information systems to supplement current systems.

*(a) Rural development*

700. Support for rural development will seek to increase the scale and productivity of agriculture through actions designed to expand the local road infrastructure with municipal financing, expand risk coverage through PRONAR, increase rural electrification coverage through PRONER, and create conditions for developing rural microcredit with actions directed from FONDESIF.

Table 8.3  
Goals for Intermediate Indicators: Rural development (1)

Intermediate Indicators	2000	2001	2002	2003	2004	2005	2006	Determinants of Goal Attainment
Rate of growth in index of volume of non-industrial agricultural products	5.32	1.12	5.58	5.07	3.68	4.51	5.22	SIBTA-PRONAR Cyclical climate fluctuations.
Hectares of agricultural lands under cultivation with irrigation (in thousands cumulatively)	250	253	259	266	277	290	304	Climate changes Investment planned by PRONAR
Percentage of portfolio of EMFs directed to rural credit in terms of total portfolio of EMFs (urban and rural)	32%	37%	39%	40%	42%	43%	45%	Supply of credit Productive infrastructure and technological assistance
Percentage coverage of rural electrification	23%	26%	28%	31%	33%	37%	40%	Investment planned by PRONER

(1) The pertinent annex provides a detailed description of the determinants of goal attainment.

701. The goals were established based on progress made in rural development programs although consideration was also given to factors that could hamper goal attainment such as climate fluctuations or a limited supply of credit.

*(b) Road infrastructure*

702. In order to evaluate road infrastructure programs, use was made of indicators that approximate the amount of paved roads and the investment in maintenance. Goal attainment is dependent on the availability of credit resources, expeditious bidding procedures, and institutionalization for the SNC.

Table 8.4  
Goals for Intermediate Indicators: Road Infrastructure (1)

Intermediate Indicators	2000	2001	2002	2003	2004	2005	2006	Determinants of Goal Attainment
Percentage of kilometers in the primary network awarded under concession arrangements	0%	11%	22%	28%	28%	28%	28%	RFPs(poner sigla en castellano), Private Sector Participation
Number of weighing stations	15	17	19	22	25	25	25	RFPs, greater availability of foreign resources
Percentage of primary network that is paved	36%	44%	47%	51%	60%	67%	73%	Credits granted Progress in concessions
Budgetary execution of the SNC	70%	75%	78%	80%	82%	84%	86%	Institutionalization of the SNC
Roadway Fund (in millions of dollars) (2)	---	---	---	---	---	---	---	Resources for financing

(1) The pertinent annex provides a detailed description of the determinants of goal attainment.

(2) The goals will be set once the Roadway Fund is created.

703. The incentives provided by the compensatory policy and the municipalities' responses will determine progress in constructing and maintaining local roads. This limits the ability to establish quantitative goals.

*(c) Microfinance*

704. Progress in making credit available will be measured by the percentage of municipalities with populations greater than or equal to 5,000 inhabitants with access to credit. A municipality is considered to have financial services coverage when a bank or bank branch, mutual association, cooperative or NGO is physically present.

Table 8.5  
Goals for Intermediate Indicators: Microfinance (1)

Intermediate Indicators	2000	2001	2002	2003	2004	2005	2006	Determinants of Goal Attainment
Percentage of municipalities with access to financial services	56%	60%	65%	70%	75%	80%	85%	FONDESIF Actions Resources for expansion of services.

(1) The pertinent annex provides a detailed description of the determinants of goal attainment.

*(ii) Component 2: developing productive capacities*

705. Indicators associated with education, health and habitability are considered. In education, consideration is given to indicators associated with progress in educational reform and the anticipated level of spending and investment in education. In health, consideration is given to indicators associated with actions to reduce ARIs, care for mothers, and reducing the spread of Chagas Disease to households. The goals for water and sewer systems are important due to their association with infant mortality.

*(a) Education*

706. The number of educational centers (“núcleos educativos”) in urban and rural areas indicates progress under the Transformation Program (including the teacher training plan); moreover, they point to improvement in teaching practices and in the provision of educational materials. The indicators of spending on education in schools reflect the priority given to primary education. Attainment of the goals depends on the allocation of resources, the liquidity of the TGN and progress in the Educational Reform Program as a whole.

Table 8.6  
Goals for Intermediate Indicators: Education (1)

Intermediate Indicators	2000	2001	2002	2003	2004	2005	2006	Determinants of Goal Attainment
No. of educational centers with complete primary school /No. of existing centers–Rural	80.8%	82.9%	85.0%	87.5%	90.0%	92.5%	95.0%	Transformation Program Allocation of economic resources
Spending on education in schools /Total SPNF Spending (w/ Pensions)	11%	13%	14%	15%	15%	15%	15%	Allocation of economic resources. Liquidity of the TGN
Spending on education in schools /Total education spending	72%	72%	75%	77%	77%	77%	77%	Allocation of economic resources. Liquidity of the TGN

(1) The pertinent annex provides a detailed description of the determinants of goal attainment.

Note: The methodology for calculating spending will be agreed upon between UPF and MECyD.

*(b) Health and basic sanitation*

707. Health actions seek to achieve reductions in maternal and infant mortality rates and the rate of infestation of Chagas disease. The population’s increased access to drinkable water and basic sanitation will also help to reduce infant mortality rates.

Table 8.7  
Goals for Intermediate Indicators: Health and Basic Sanitation (1)

Intermediate Indicators	2000	2001	2002	2003	2004	2005	2006	Determinants of Goal Attainment
% of children with low birth weight	6%	6%	5%	4%	4%	3%	3%	Nutrition Program. Increased childbirth coverage may increase the number of low weight babies.
% of pneumonias in children under one year treated in health services.	17%	18%	19%	20%	21%	22%	23%	SBS, Intensity and extent of cold during winter season
% of households with piped in water (2)	--	--	--	--	--	--	--	National Compensatory Policy. Municipalities
% of households with access to basic sanitation (2)	--	--	--	--	--	--	--	National Compensatory Policy. Municipalities
% of pregnant women with adequate prenatal checkups	34%	37%	40%	43%	46%	49%	53%	SBS, cultural barriers
% of childbirths handled institutionally.	49%	53%	56%	59%	62%	65%	68%	SBS, cultural barriers
Dwellings with 2 <sup>nd</sup> cycle of spraying against Chagas disease in endemic areas	14%	20%	28%	41%	57%	78%	100%	Epidemiological Shield Support of SEDES

(1) The pertinent annex provides a detailed description of the determinants of goal attainment.

(2) The goals will be established once the National Rural Sanitation Strategy is approved. It is now being developed under the direction of the MVSBS and will include information from the 2001 Census.

708. In the case of health, attainment of the goals for reducing maternal mortality is contingent upon efforts to ensure that health insurance arrangements more closely reflect the cultural characteristics of the population. Reducing infant mortality depends on the seasonality of pneumonias. Reduction in Chagas disease infestation depends on the availability of financing and support for SEDES spraying activities. Greater access to drinkable water and basic sanitation services is determined by the availability of resources and the participation of municipalities in the compensatory policy.

***(iii) Component 3: increasing security and protection***

709. Qualitative indicators associated with progress in fixed term programs are taken into consideration. Care for the elderly (2001) and sustainability of childcare programs (2001) will contribute to the protection of vulnerable groups. The creation of a fund for natural

disasters (2002) and the establishment of an emergency jobs program (2001) will help to reduce the principal risks to which the poor population is exposed.

710. The promotion of legal security in the holding of assets will be based on the higher *number of hectares with titles cleared*. The regularized surface area covers that area that has been the subject of a public display procedure (or public consultation) or announced to the beneficiaries. The goal for the year 2006 proposes completing the clearing of title to rural property in Bolivia. It is estimated that the approximate national area that needs clear title amounts to 54 million hectares, of which 11.85 million hectares are cleared (not titled<sup>96</sup>). This means that in order to attain the goal of 54 million regularized hectares by the year 2006, 7,025 million hectares must be regularized each year in the period 2001 to 2006. The goals for this indicator depend on what financing is available to the INRA for procedures after the period 2001-2002.

Table 8.8  
Goals for Intermediate Indicators: Securing Land Ownership (1)

Intermediate Indicators	2000	2001	2002	2003	2004	2005	2006	Determinants of Goal Attainment
Number of hectares secured (in millions)	11.8	19	26	33	40	47	54	Financing for procedures after the period 2001-2002.

(1) The pertinent annex provides a detailed description of the determinants of goal attainment.

***(iv) Component 4: increasing participation and social integration***

711. Two qualitative indicators are considered in connection with promoting participation and reducing inequities among ethnic groups. It is suggested that the National Dialogue be conducted every 3 years as a demonstration of the State's commitment to participatory policies.

712. In taking up the conclusions of the National Dialogue, the BPRS understands that this opportunity for consultation must be institutionalized to ensure the active participation of civil society in monitoring actions to combat poverty. Implementation of the Dialogue requires strengthening and not dismantling the institutionality of public participation in developing social control activities.

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<sup>96</sup> Clearance: The technical-legal procedure designed to regularize and perfect agricultural property rights.

Title: The legal procedure designed to provide security in ownership rights to agricultural lands.



713. The percentage of the population that has a form of identification is suggested as an indicator of greater capacity to exercise citizenship. Although at present there is no official figure for the baseline (2000), it is a priority that the BPRS define this percentage as well as the coverage goals, in coordination with the agency responsible for this coverage.

**(v) Cross-cutting issues**

*(a) Development with Identity*

714. Ethnicity indicators make it possible to evaluate the effect of strategic actions and the action plan of the Development with Identity objective. This plan will emphasize the opportunities and capacities of native peoples, for which it proposes implementation of rules and progress in developing MYPEs and access to public services.

Table 8.9  
Goals for Intermediate Indicators: Development with Identity (1)

Intermediate Indicators	2000	2001	2002	2003	2004	2005	2006	Determinants of Goal Attainment
Implementation of Indigenous Development Plan (PDI)	--	Start of PDI	Conclusion of PDI	PDI in progress	--	--	--	Approval of Indigenous Law.
No. of Culturally Oriented Microenterprises in operation	--	20	70	90	Transfer to the VMME	-- (2)	--	The transfer of Culturally Oriented Microenterprises will be discussed with the MTM and VMME, which will receive these MYPEs as a transfer.
Percentage of indigenous population covered by health, education and other basic services (3)	--	--	--	--	--	--	--	Educational Reform Basic Health Insurance Cultural Factors

(1) The pertinent annex provides a detailed description of the determinants of goal attainment.

(2) Revising the goals starting in 2004 will be the responsibility of the VMME.

(3) Data broken down by ethnic populations are needed to estimate goals.

*(b) Gender*

715. Due to the cross-cutting nature of the subject of gender, actions will seek to promote women's opportunities, capacities and participation. Consideration is therefore given to indicators associated with the progress of microenterprises, literacy programs, access to health, and the right to exercise citizenship. Gender equity will be achieved to the extent that there is greater commitment and coordination among the various institutions involved in attaining the goals.

Table 8.10  
Goals for Intermediate Indicators: Gender (1)

Intermediate Indicators	2000	2001	2002	2003	2004	2005	2006	Determinants of Goal Attainment
% of MYPEs headed by women with assistance from SAT and PROSAT	34%	37%	40%	43%	46%	49%	53%	Definitive goals will be discussed with the Vice Ministry for Microenterprise.
Progress of program to give rural women access to literacy, continued school attendance and technical training	49%	53%	56%	59%	62%	65%	68%	Definitive goals will be discussed with the Ministry of Education (alternative education).
% of women with access to Basic Health Insurance	14%	20%	28%	41%	57%	78%	95%	Definitive goals will be discussed with the Ministry of Health.
% of women with identity card	---	---	---	---	---	---	---	Definitive goals will be established in coordination with the responsible institution.

(1) The pertinent annex provides a detailed description of the determinants of goal attainment.

(c) *Environment*

716. Indicators on the environment make it possible to evaluate policies in terms of structurally organizing the water sector at the national level, improving the quality of life for the urban population, increasing the potential of biodiversity and promoting sustainable forest development.

Table 8.11  
Goals for Intermediate Indicators: Environment (1)

Intermediate Indicators	2000	2001	2002	2003	2004	2005	2006	Determinants of Goal Attainment
Completion of design of National Water Resources Plan, Master Plans for Basins and the National Flood Control Plan	n.a.	50%	100%	n.a.	n.a.	n.a.	n.a.	Proper administration of IDB project 929
% increase in level of resources allocated to local communities based on SERNAP collections in protected areas	30%	20%	5%	5%	5%	5%	5%	Proper administration of SERNAP
% increase in income levels due to sustainable wildlife management programs	50%	20%	10%	10%	10%	10%	10%	Wildlife management programs for commercialization of products, regularization of land tenure

Note. The pertinent annex provides a detailed description of the determinants of goal attainment.  
n.a.: not applicable

717. Attainment of the goals depends on the availability of resources, efficient management of existing programs, and an appropriate institutional framework for implementing environmental plans and programs.

### B. Monitoring and Evaluation of The BPRS

718. Impact and outcome indicators will make it possible to evaluate changes in poverty levels and well-being that can be attributed to the BPRS. These changes must be analyzed over a sufficiently extended timeframe to assess the effects on the action plan.

719. The diagnostic of poverty and the National Dialogue allowed Bolivia to determine the principal courses of action for reducing poverty. Both inputs made it possible to build the cause-and-effect relationships between the BPRS indicators, many of which will be modified over time, partially as a result of the Strategy's actions.

720. Evaluation and periodic monitoring of actions to reduce poverty will ensure a better understanding of poverty, will help to update the diagnostic assessment, and will serve to reformulate the action plan when necessary.

721. Evaluating the BPRS will make it possible to determine the degree to which attainment of an objective can be attributed to the action plans. In addition, it will allow a better approximation of the "ideal" composition of spending and public investment based on results.

722. Monitoring will make it possible to show the progress of the action plan (in the short and medium terms) in the most timely manner and will identify bottlenecks hampering the achievement of anticipated outcomes and effects.

723. Monitoring BPRS management and results will be accompanied by control by civil society. Transparency in resource allocation as well as joint responsibility for attaining objectives will be the principles guiding social control. The participation of civil society will make it possible to evaluate the quality of services delivered and to determine the value that the population places on such services.

### **Evaluation**

724. Evaluation will make it possible to identify the extent to which changes in poverty levels and increased levels of well-being can be attributed to the action plans of the BPRS. Monitoring, on the other hand, will determine the degree to which intermediate goals are achieved.

725. The evaluation process will involve identifying the principal programs to be evaluated and the anticipated impact in the context of the BPRS, pinpointing the principal sources of information and the institutional arrangements needed to ensure this process.

#### ***(i) Programs to be evaluated***

726. According to the priorities identified in the action plan, the plans and programs proposed for evaluation are: Master Transport Plan, Educational Reform, Basic Health Insurance and Childcare Program.

727. Investment in local roads and in the primary road network is considered a priority as it will provide Bolivia with internal and external connections. The effects of economic growth, of greater access to markets and the ability to bring various services closer to remote populations are difficult to quantify in the short term and will be evaluated within the context of the BPRS.

728. Policies that seek to improve the population's capacities will help to reduce poverty, while their effects on productivity and incomes will become apparent over the long term. Both Educational Reform and Basic Health Insurance must be evaluated in terms of increased access to services and the quality of services provided.

729. The PAN Program involves treatment, education, health and nutrition services that make it a program with potentially high impact on childhood development. However, the institutional design it currently reflects does not ensure its financial sustainability. This experience, many aspects of which are innovative, will be evaluated in order to identify the institutional arrangements that will ensure its impact and sustainability over time.

***(ii) Expected impact***

730. The BPRS will evaluate the impact of the action plan on the poor's ability to produce income through the increase of the human capital and the conditions (traducir al inglés lo que sigue) para que esta población se beneficie del crecimiento económico.

731. Actions that seek to improve the education and health of the poor population will also be evaluated. These actions will be evaluated in terms of achieving short- and long-term impacts, which relate to life expectancy and schooling levels among the poor. The effects on these variables must consider both the effect of public action and greater economic growth.

***(iii) Sources of information***

732. Evaluation requires reliable, timely, and comprehensive sources of information. Quantification of the effects of various programs on reducing poverty will be based on household surveys that measure living conditions (MECOVI), developed on the basis of a random sample. The information from this survey will make it possible to construct indicators on education, health, housing and incomes.

733. The information from CNPV 2001 will make it possible to establish the baselines for some indicators and to update social information, and it will be used to evaluate changes that have occurred since the year of the last Census (1992). Geo-referenced Information Systems (SIG) will be used intensively to determine the factors with which these changes are most closely associated. This evaluation is particularly useful in assessing the impact of municipal investments.

734. Administrative records will make it possible to build indicators relating to the supply of public services, particularly in health and education. In addition, they make it possible to build time series for performing an evaluation of the impact of public policy actions.

***(iv) Institutions***

735. Evaluation of the BPRS will be carried out by the Social and Economic Policy Analysis Unit (UDAPE) in close coordination with the National Statistics Institute (INE). This means defining comparable information that the INE will provide regularly based on the methodologies agreed upon for each program.

736. The results of the evaluation as well as the methodologies used will be disseminated within the public sectors and to interested institutions in civil society. Research centers, universities and private institutes that are interested in evaluating programs to reduce poverty will be invited to form part of an advisory group on implementation of the BPRS.

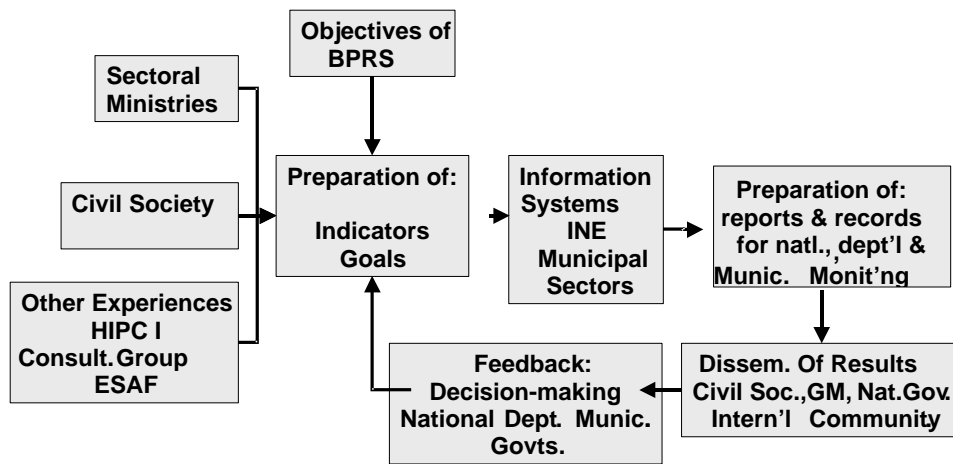
**Monitoring**

737. Although monitoring is not sufficient to determine the success (or failure) of the BPRS, it will shed light on the factors that account for the degree to which intermediate goals

are achieved. It should be noted that both supply variables (public policy actions) and demand variables (e.g., demographic aspects or household incomes) are involved in this result.

738. Monitoring of the BPRS will consider the following elements: (i) identification of social and institutional actors; (ii) establishment of goals and indicators; (iii) definition of technical criteria for achieving intermediate goals; (iv) compilation and analysis of information; (v) preparation of a periodic report describing the degree of progress and factors associated with that performance; (vi) dissemination of results; and (vii) feedback and decision-making. This sequence is illustrated in the following plan:

Graph 8.2  
System for Monitoring the BPRS  
Systemic Approach



*(i) Identification of social and institutional actors*

739. Each of the Ministries and sectors involved will be responsible for monitoring the actions proposed in the BPRS. UDAPE, in its capacity as Technical Secretariat of the National Economic Policy Council (CONAPE) and the National Social Policy Council (CONAPSO), will be responsible for preparing the monitoring reports that will be submitted for consideration by these entities. Information from the VIPFE on the management and progress of programs as well as information from the INE on characteristics of the population and its access to social services will make it possible to compare the information from the sectoral ministries.

740. At the departmental level, the Results-Oriented Monitoring and Evaluation System (SISER) will be strengthened. This system will be based on commitments signed between the nine prefects and the Office of the President of the Republic. Monitoring at the departmental level will make it possible to validate achievements recorded at the national level while

identifying possible bottlenecks in coordination with municipal governments. Advances made in the PDMs will be used as an instrument for monitoring actions at the local level.

741. A municipal system for monitoring the Strategy will be developed gradually on the basis of improved administrative records in education as well as the production of income data and infrastructure for which the municipal governments themselves will be responsible. This information will be supplemented with surveys representative of groups of municipalities that will allow for result and impact indicators in the medium term.

***(ii) Establishing goals and indicators***

742. National Dialogue 2000 identified meaningful agreements between civil society and the government that constitute qualitative indicators for monitoring the BPRS. The indicators make it possible to zero in on definitions of “progress” or “success” in reducing poverty.

743. In the case of subnational levels, the development of commitments will be included in the PDDs and PDMs. These planning instruments will clearly incorporate actions to be financed with poverty relief funds; moreover, they are the principal instruments that civil society will use for monitoring.

***(iii) Defining technical criteria for attainment of intermediate goals***

744. The criteria for determining the degree to which intermediate goals are achieved require a margin of flexibility. For this purpose, there will be technical criteria regarding the indicator values that will be considered minimums for performance to be considered acceptable. This process has already been carried out in some sectors.

745. The criteria defined may be confirmed periodically if more complete and reliable information becomes available. Evaluations and impact studies for programs will also provide input for this confirmation process. The dissemination of indicators, goals and results to civil society will make it possible to evaluate the relevance of these criteria.

***(iv) Compiling and analyzing information***

746. The definition of indicators based on strategic objectives points to the need for information for both monitoring and evaluation of the BPRS. The final impact and results require data from censuses and surveys. In particular, household surveys under MECOVI will contribute to measuring the indicators, particularly impact and outcome indicators.

747. Sectoral information systems will be strengthened to ensure a timely flow of high quality information that will make it possible to report on the process or intermediate indicators defined for each strategic objective.

748. In this context, it will be important to improve information systems substantially, particularly at the departmental and municipal levels. The following actions have been planned for this purpose:

- At the national level, conduct ongoing quality of life surveys and specific surveys in order to monitor poverty and its causes, supplementing their content with the requirements of the monitoring process itself.
- Strengthen a regional information system at the departmental and municipal levels.
- Strengthen the existing information systems: Education Information System (SIE) and National Health Information System (SNIS).
- Implement information systems in housing, basic sanitation, agriculture and rural development.
- Strengthen information from budgets, social spending and social indicators provided by departments and municipalities.
- Strengthen the national budget, social spending and public investment information system. For this purpose, coordinated work among the VIPFE, UPF, INE and UDAPE will be promoted.

749. Within its jurisdiction, the INE will be responsible for coordinating, reviewing and disseminating information through information cards and its webpage. This will make the results generally known to civil society, the levels of government and international cooperation partners and will promote their continued participation in the operational phase of the BPRS.

***(v) Preparation of periodic reports***

750. Performance reports at the national level will be prepared by UDAPE with information from the INE and the sectoral ministries. The Vice Minister for Popular Participation will be charged with consolidating municipal information, strengthening the municipalities, and coordinating efforts between the municipal and central levels.

751. The reports will be prepared annually and made available to civil society. In addition, they will serve a guide for preparing the General Budget of the Nation, so that corrective action can be taken on the basis of BPRS priorities.

752. Reports prepared at the national level will be the basis for departmental and municipal reports although reports prepared by the municipalities will primarily relate to progress made in implementing their own development plans (PDDs and PDMs). Particular attention will be given to actions financed with debt relief funds.

***(vi) Dissemination of results***

753. In order to make public management more transparent and to detail the attainment of goals, emphasis will be placed on broad dissemination of the results achieved. In this context, mechanisms should be specified to provide for more effective outreach to civil society.

754. The participation of research institutes or centers will contribute to the broad dissemination of results and will make possible a correct understanding of results. In addition, the national government will take steps to disseminate the principal research findings pertaining to poverty reduction in a clear and intelligible fashion.



***(vii) Feedback and decision-making***

755. Based on the evaluation reports, both the national government and the municipal governments should issue statements to inform the national community about the measures that will be considered in to correct actions that are behind schedule or that have low impact. These measures must contain specific actions to be carried out through the ministries, prefectures and other State agencies in the case of the central government and in the PDMs in the case of the municipal governments.

756. The BPRS feedback process, in which civil society will participate, will make it possible to continue improving results-oriented management in the fight against poverty and will strengthen State institutions based on broad citizen participation.

**C. Action Plan**

757. In order to create the long-term conditions necessary so that the BPRS can be consolidated as the policy of the State, the Action Plan has been developed to indicate the most relevant actions, with emphasis on the next 2 years, in order to establish the foundations that will help to set in motion the central poverty reduction objectives and ensure continuity in their attainment.

758. Development of the Action Plan considered the actions proposed in the BPRS with emphasis on actions up to the year 2002. In order to establish priorities over time, a consultation process involved the various public sector institutions that set priorities and schedules. This information made it possible to formulate a Plan with two components: a) Structural Actions, and b) Sectoral Actions.

*(a) Structural actions*

759. These are changes to ensure the viability of the BPRS and relate to institutional reforms and changes. This encompasses issues pertaining to the sustainability of the Strategy and its relationship with international cooperation partners as well as other aspects regarding monitoring and evaluation.

760. In the area of institutionalization, the Action Plan gives priority to congressional approval of the Dialogue Law to provide for a gradual transfer of education and health services to the municipal governments, the method for allocating resources from debt relief and transferring them by opening a special Dialogue 2000 account and municipal accounts, the implementation of the Compensatory Policy for more equitable allocation of resources coming from investment funds, and the establishment and implementation of social control mechanisms.

761. Institutional actions also include public sector institutional strengthening based on application of the Civil Service Law, institutionalization of the National Road Service and the Internal Revenue Service and the fight against corruption, in conjunction with priority

actions in the administration of justice, rules for goods and services management, asset disclosure by public officials and integrated management systems.

762. The basic actions to ensure the sustainability of the BPRS have to do with mobilizing resources to finance the BPRS through the new tax code and proposals regarding a more equitable tax system. They also incorporate actions to strengthen the municipalities to confront new challenges resulting from a more decentralized process for managing the Strategy.

763. The New Framework of Relationships with International Cooperation Partners highlights efforts to redirect resources based on the priorities of the Strategy, make contracting procedures uniform and design mechanisms to finance recurrent expenditures.

764. Monitoring and evaluation include taking steps to produce information for carrying out long-term tasks, particularly by conducting a Population Census, developing poverty indices, and defining methodologies to prepare indicators relating to the Strategy.

*(b) Sectoral actions*

765. These relate to basic measures that will help ensure the viability of opportunities, capacities, protection, participation, gender, the environment, and indigenous peoples.

766. Under “opportunities,” priority will be given to initial actions, financing to regularize land tenure, the National Irrigation Plan, telephone service and rural electrification, programs for handicrafts production, incentives for medium and small enterprise, development of microfinance, technological improvement and improvements in road infrastructure.

767. Under “capacities,” emphasis is placed on actions needed to improve access to health services, education, basic sanitation and housing. Under protection, priority is given to the Program of Care for Boys and Girls Younger than 6 (PAN) and to strengthening the agencies involved in providing emergency care during natural disasters. Under participation, priority is given to setting up the municipal Advisory Councils.

768. Gender issues include important actions under the Three-Year Gender Equity Plan, formal and alternative education programs, and violence prevention plans. For the environment, priority is given to environmental management, which initially focuses on creating regulatory frameworks to promote the proper use of water resources, land, forest resources, etc. Indigenous issues include initial actions directed to setting up culturally-oriented enterprises and plans for the TCOs.

769. The Action Plan is part of the BPRS and the corresponding annex includes both institutional responsibility and a breakdown of actions for the years 2001, 2002 and 2003 and thereafter.

## **IX. MACROECONOMIC CONTEXT OF THE STRATEGY**

### **A. Macroeconomic Aspects**

770. The BPRS is established within a context of macroeconomic balance. This means that actions defined in the Strategy must not undermine the fiscal, monetary, commercial and financial policies of the Bolivian Economic Program (PEB) and that a deepening of structural reforms to stimulate growth is assumed.

771. Sustained economic growth is pertinent to the reduction of poverty. Thus, the objective of the medium- and long-term PEB is to achieve growth rates between 5.0 percent and 5.5 percent over the next 15 years.

772. The BPRS indicates actions relating to support for microenterprise and microfinance, rural development and construction of infrastructure to benefit the poor population, creating sources of income and employment and giving rural populations greater access to markets.

773. The Strategy seeks to produce growth with greater utilization of the labor force and it thus emphasizes support for small and micro-enterprise. However, the contribution of other domestic and foreign private sectors (medium and large enterprise) will continue to be essential to achieving increased growth rates. The macroeconomic scenarios developed assume continuity in the process of creating and consolidating a legal and economic environment suited to private sector contributions to the objectives of growth.

774. Structural reforms must go further, particularly in the legal system and labor market so that obstacles created by bureaucracy in the judicial system and rigidities in the labor market can be reduced.

775. In terms of fiscal policy, the sustainability of the deficit is based on non-inflationary sources of financing. Estimated economic growth rates and greater efficiency in collections will allow gradual reduction of the deficit and the internal credit of the Central Bank and the private sector, in the latter case avoiding crowding-out effects to the detriment of the private sector. In addition, spending policies will be consistent with revenues obtained and will give preference to current social spending and investment based on priorities defined in the Strategy.

776. Deficit levels over the next few years will continue to be affected by the cost of structural reforms, particularly pension reform. Thus, room to allocate greater resources to social spending is still limited if one simply takes into account resources generated by domestic collections and foreign sources committed to date. The Enhanced HIPC initiative and other initiatives proposed in the context of the Strategy will provide greater resources to finance priority programs.

777. The Customs Reform implemented in 1999 introduced improvements in the efficiency and control of the customs system. Thus, increased revenues are anticipated from

customs duties, the VAT and the Specific Consumption Tax (ICE) on imports. Promulgation of the Tax Code will establish the legal system, making it possible to increase not only the tax base but also to enhance taxpayer education. Royalties derived from gas exports to Brazil will add to TGN revenues.

778. Monetary policy will seek to preserve price stability and keep inflation rates below 4.0%. In addition, exchange policy will retain an exchange rate that is competitive for exports.

779. The low inflation rates anticipated in the BPRS are an important factor in avoiding distortions in the allocation of resources; they also reduce redistribution effects harmful to society's poorest members given that most of them have neither the information they need nor the ability to shield themselves against inflation by allocating their limited resources to financial instruments that are indexed or maintain their value.

780. The sustainability of the balance of payments is predicated on sustained growth in exports, on direct investment directed for the most part to the mining and hydrocarbons sectors, which will finance a significant portion of imports, and public sector debt with rates and terms consistent with the ability to generate resources to meet debt service requirements. Thus, the current account deficit will tend to fall until reaching levels below 5 percent of GDP. This means that external savings will be lower and an increasing percentage of investment will be financed with domestic savings.

781. The HIPC I and II initiatives allow the country to move toward a sustainable debt scenario. Debt relief under these initiatives, gradual reduction in the current account of the balance of payments, maintenance of flows of direct investment and indebtedness consistent with the economy's requirements will make it possible to preserve international reserve levels to buffer possible external shocks and to ensure import amounts equal to at least six months.

782. It is anticipated that growth in the economy will increase gradually from 4.0 percent in the year 2001 to 5.0 percent in 2003 and that starting in the year 2008 a growth rate of 5.5 percent will be achieved until 2015. Although it is estimated that the composition of GDP would not vary substantially, the BPRS proposes to allocate more resources to rural areas, infrastructure and support for small and microenterprise, thereby triggering more sustainable growth through improving the productivity of labor intensive sectors and narrowing the gap between modern and backward sectors in agriculture, manufacturing, and services.

783. Nonetheless, it is possible in the medium term that the rate of growth in the economy will be higher. This would happen if volumes are increased in the contract to sell natural gas to Brazil and if another gas pipeline has to be constructed in 2005 parallel to the current one. This could increase the number of thermoelectric stations for exporting electricity, and a gas to liquid (diesel) fuel conversion plant could be installed in 2004.

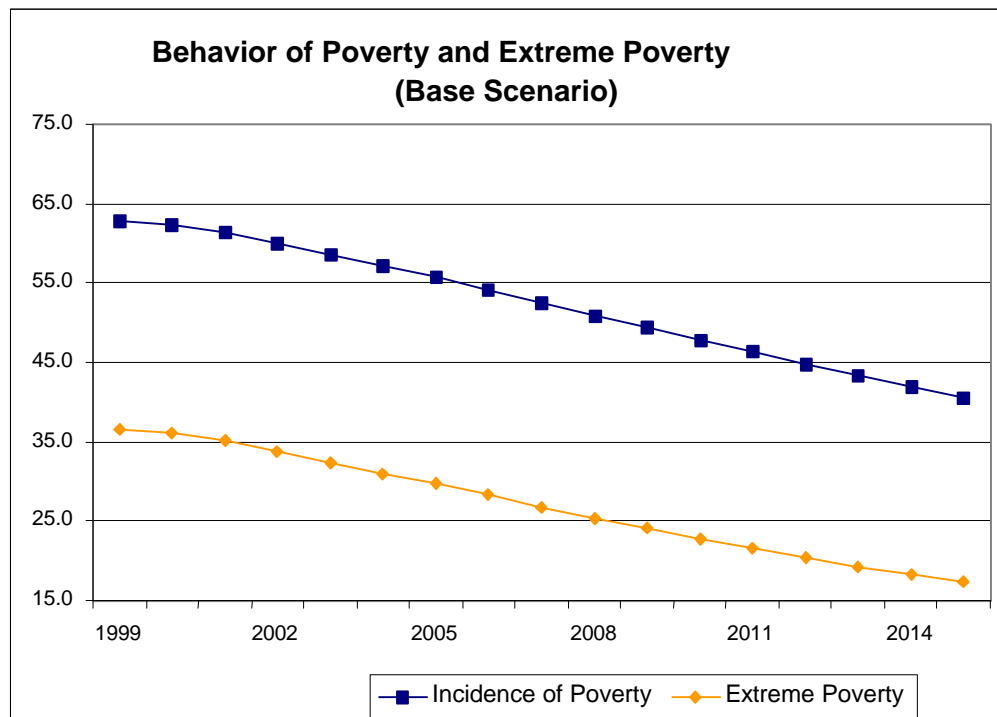
## B. Anticipated Results<sup>97</sup>

### GDP growth and impact on poverty

784. Macroeconomic estimates indicate that the economy would grow at average rates in excess of 5.0 percent throughout the period considered in the BPRS (2001-2015).

785. The estimates<sup>98</sup> indicate that at this average rate the Headcount Index of poverty would fall from an estimated 62.4 percent in the year 2000 to 40.6 percent in the year 2015 and that extreme poverty would fall by more than half, going from 36.2 percent in 2000 to 17.3 percent in 2015. On average, the Headcount Index of poverty and extreme poverty would be reduced to annual rates of 1.5 percent and 1.3 percent respectively. These changes are very close to the average seen in other countries that have over long periods increased at rates of at least 5.0 percent per year. Bolivia would achieve the international goal of reducing extreme poverty by one-half.

Graph 9.1  
Bolivia : Reduction in the Headcount Index of Poverty



<sup>97</sup> The macroeconomic scenarios were developed by the BCB and the MH-UPF. They are attached in the respective annex.

<sup>98</sup> Calculated on the basis of a model developed by UDAPE and the World Bank.

Table 9.1  
Headcount Index of Poverty in Some Asian Countries\*  
(As Percent)

Country	Year	Annual Decrease	First Year	Final Year
Korea	1970-1990	0.9	23	5
Philippines	1971-1994	0.7	52	36
Indonesia	1970-1990	2.0	58	19
Malaysia	1973-1987	1.6	37	14
Thailand	1962-1988	1.4	59	22
Average		1.3		

\* Defined as the percentage of families living below the poverty line.

Source: Finance and Development / IMF/September 1997.

In the case of Bolivia, the average annual reduction in poverty would be 1.45 percent.

### Sources of growth

786. The economic growth anticipated in the BPRS is an essential factor in reducing poverty. Greater economic activity will make it possible to expand employment levels of both skilled and unskilled labor, will create opportunities to increase income from work in sectors that have productivity gains and will make it possible to obtain greater resources through tax collections so that these can be earmarked for investment and social spending, with effects on the redistribution of income that will benefit the poor.

787. Maintaining a stable macroeconomic environment and greater legal security will provide the opportunity to attract more domestic and foreign investment, which will be important in raising the quality of employment. In addition, incentives and programs to support MYPEs, the development of productive infrastructure and commercialization, particularly in transport and rural electrification, will generate opportunities for the poor to increase their incomes and obtain access to sources of employment.

788. Growth in the economy is based on the following factors: (i) macroeconomic policy and regulations on attracting investment and the sectoral regulatory system; (ii) the contribution of the current BPRS in more labor-intensive and traditional small-scale sectors; and (iii) the dynamic performance of the modern sectors of the economy.

#### *(i) Macroeconomic policy and regulations on attracting investment and the sectoral regulatory system*

789. Macroeconomic conditions such as continued stability constitute the necessary basis for instilling a minimum level of confidence in those who participate in productive activities. The adoption of an exchange policy without great delays, combined with a policy of tax neutrality, promotes exports, along with a commercial policy of effective opening of markets

for both non-renewable natural resources like hydrocarbons and minerals and goods that come from agriculture or goods that incorporate higher added value, whether from agribusiness or manufacturing.

790. The country's Investment Law grants the same treatment to foreign investments as to domestic investments. In addition, it does not place restrictions on sending remittances of profits and dividends outside the country. A simpler Tax Code<sup>99</sup>, sectoral laws and the sectoral regulatory system, still being completed, constitute the legal framework that establishes the rules of the game.

791. Public investment to supplement private investment is intended to generate favorable conditions for developing productive activity and is directed primarily to roads and social infrastructure.

***(ii) The contribution of the BPRS in more labor-intensive and traditional small-scale sectors***

792. The impact of the BPRS strengthens the environment for economic growth, particularly in sectors involving traditional agriculture and small production units and both urban and rural microenterprises. In these sectors, the levels of productivity and competitiveness will increase through concrete actions in the area of rural development, road infrastructure, technical assistance and technology, development of micro- and small enterprise, development of microfinance and land access and tenure, which are the strategic objectives for increasing opportunities for the population and which have more short- and medium-term effects on growth.

793. Thus, provision of production infrastructure such as irrigation and micro-irrigation systems, rural electrification and roads, legal security in land tenure, and technical and technological support in the production, marketing and management of primarily agricultural rural activities will make it possible to increase agricultural yields and enhance the productivity of other rural economic activities such as tourism and handicrafts, which will be supported to diversify employment opportunities and increase incomes. Thus, the objective of rural development as proposed in the BPRS is to improve productive conditions, ensure property rights, and expand employment alternatives.

794. The development of small production units and urban and rural microenterprises includes adapting regulations for their operation, coordinating between the public and private sectors, and developing the nonfinancial services market – training, business management, marketing and provision of information – as an instrument for enhancing efficiency and competitiveness in these units.

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<sup>99</sup> Currently under discussion in the Congress.

795. Deepening and diversification of microfinance services that will expand territorial coverage to facilitate access to such services will help to create new businesses and preserve existing businesses, with increasing sustainability over time. This will help MYPEs to establish links among themselves and with larger businesses that can generate a sustained export supply consistent with the demand and quality requirements of international markets.

796. A greater role for MYPEs is also anticipated in the domestic market through active participation in the provision of goods and services, such as the construction and maintenance of roads, construction of irrigation and micro-irrigation works and basic sanitation at the local, departmental and national levels.

797. In addition to developing opportunities for traditional agriculture, handicrafts, tourist services and trade in rural areas, MYPEs will make it possible to create stable sources of employment. Engineering projects in production infrastructure and roads and the extension of electrical power networks are activities that require significant amounts of labor and thus generate more employment.

798. As a result, the BPRS aims to stimulate economic growth in the sectors with a larger labor component that have not yet been given priority in measures targeting economic growth.

799. The development of capacities, understood as improvements in and access to education, health services and inhabitability, will make it possible over the medium and long term to develop human resources so that they will be better trained and prepared to handle other opportunities in jobs requiring more sophisticated and specific capabilities in productive sectors that have higher added value or are more capital intensive.

***(iii) The dynamics of the modern sectors of the economy***

800. Sectors like modern agriculture that are strongly tied to agroindustry and thus an important component of the manufacturing sector, and extractive industries such as hydrocarbons and ores will continue to play a crucial role in the growth of the economy. Exports of natural gas to Brazil, the discovery of zinc and silver deposits and natural gas reserves in the department of Tarija, and possibilities for expanding export volumes and installing plants to convert natural gas to synthetic hydrocarbons should usher in significant increases in the economic growth of these sectors and the economy as a whole.

801. These sectors are also expected to have an effect on other activities such as construction of infrastructure, pipelines for hydrocarbons, roads for mining, construction of thermoelectric plants both to operate the mining complex and to take advantage of abundant natural gas resources as well as to harness the potential for added value exports in the form of electricity to border towns in Brazil.

802. The telecommunications sector has gathered momentum in recent years and will continue to do so with the opening of markets.



803. Growth in the economy is expected to increase gradually from 4.0 percent in 2001 to 5.0 percent in 2003. Thereafter, the rate will increase to 5.5 percent in 2008 and would remain at an 8-year horizon. Although the composition of this growth would not vary substantially in terms of structure, more sustainable growth would be achieved if productivity and competitiveness were improved in labor-intensive sectors, thus reducing the gap between modern sectors and backward or traditional sectors in agriculture, manufacturing and services.

804. Manufacturing and agriculture would continue to be the sectors that contribute the most to total GDP, with the difference that within these sectors the gap between the modern and backward subsectors would be reduced. Next would be trade and services, followed most notably by hydrocarbons and mining.

### **Estimated results**

805. *Per Capita* GDP. Starting in 2001, a growing trend is anticipated in the rate of growth in *per capita* GDP up to the year 2015. Cumulative growth in *per capita* GDP during the 15 years of BPRS implementation will be 59.7 percent.

806. *Per Capita* Consumption. As a result of growth, *per capita* consumption will record increases starting in 2001. As a result, *per capita* household consumption will increase at an average annual rate of 2.5 percent. This performance points to an improvement in the well-being of Bolivian families.

807. Fiscal Deficit. Even though the cost of pension reform will continue to represent a significant portion of the deficit,<sup>100</sup> the fiscal situation of the Bolivian economy appears to be quite solid through the entire period of the Strategy. The cumulative public sector deficit decreases from 3.7 percent of GDP in the year 2000 to 1.8 percent of GDP in the year 2007, stabilizing at 1.3 percent of GDP starting in the year 2008.

808. Between 2000 and 2006, the fiscal deficit requires both domestic and foreign financing, with the latter representing a smaller percentage in the overall composition of financing. However, if the country ceases to have access to concessionary resources,<sup>101</sup> the composition of financing will depend on the cost of domestic and foreign resources. Starting in 2008, the fiscal deficit is less than foreign financing and domestic financing begins to be negative. However, if the amount of the Central Bank of Bolivia's quasifiscal operations is excluded from the fiscal accounts, domestic financing becomes zero starting in 2008. This

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<sup>100</sup> During the first 12 years the Strategy is being implemented, the average cost of pension reform remains above 3.5 percent of GDP (3.69 percent), limiting the availability of resources for investment. Only in the last 3 years does the cost of pension reform fall below 3 percent of GDP.

<sup>101</sup> Funds with low interest rates and extended amortization periods

means that the SPNF ceases to finance the deficit in the domestic market, completely eliminating pressures on interest rates resulting from public sector financing needs.

809. Resources from the HIPC (I and II) initiatives make it possible to improve the fiscal position due to the relief obtained during implementation of the BPRS, for an annual average of US\$105 million.

810. **Inflation.** It is noted that the Strategy does not modify the low inflation objectives established in the Bolivian Economic Program. Monetary policy is consistent with preserving the currency's buying power, obtaining low rates of inflation. It is anticipated that inflation rates would remain below 4.0 percent throughout the entire period covered by the BPRS.

811. **Exchange rate policy** will guarantee the exchange rate through a nominal devaluation that ensures the competitiveness of the tradable sector of the economy. In addition, correct management of monetary and exchange rate policy will make it possible to increase Net International Reserves (NIR) between 2002 and 2015, and this will be conducive to external solvency.

812. **Sustainability of the Balance of Payments.** The behavior of the commercial sector indicates that the average growth rate in exports will exceed average growth in imports, thus reducing the deficit in the trade balance and favoring the maintenance of a reasonable deficit level in the current account, from 5.0 percent of GDP in 2001 to 4.7 percent of GDP in 2015, with an average below 5.0 percent of GDP.

813. In general, throughout the period the Strategy is being implemented, the capital account is performing favorably. Notable in this behavior is the evolution of the Implicit Grant Element (IED) and net disbursements of medium- and long-term public debt, which makes it possible not only to finance the debt in the current account, but also to begin building up the BCB's net international reserves in 2003.

### **Savings—Investment**

814. **National Savings** will grow starting in 2001 and will then stabilize as of 2008 at a level above 18.0 percent of GDP. It is estimated that the rate of Investment in the economy throughout the period of implementation of the BPRS will increase from 19.4 percent of GDP in 2001 to 23.2 percent of GDP in 2015.

815. **Government Savings.** Starting in 2001, Non-Financial Public Sector (SPNF) savings show an increasing trend until the end of the period in 2015, going from 3.1 percent to 7.0 percent of GDP during those years. This behavior is explained by a gradual reduction in current spending in the SPNF, particularly due to a decline in general government consumption, from 14.0 percent of GDP in 2001 to 11.2 percent of GDP in 2015. In addition, sustained increases are estimated in tax revenues, thus generating resources for capital spending on the specific policies of the BPRS.

816. **Private Savings.** Private savings stay at about 11.3 percent in the period covered by the BPRS. This level is consistent with the expected levels of domestic private investment and household consumption mentioned above, leading to improved well-being as economic activity shows greater growth.

817. **Foreign Savings.** The deficit in the current account of the balance of payments falls slowly until stabilizing at about 4.7 percent of GDP as of 2006.

818. **Public Investment.** The release of fiscal resources as a result of a disciplined fiscal policy makes available greater resources for capital spending which, as a percentage of GDP, grows from 7.1 percent in 2001 to 8.3 percent of GDP in 2015, maintaining an average level of 8.0 percent of GDP during the BPRS implementation period.

819. **Private Investment.** Average private investment remains above 13.0 percent of GDP. In addition, it is estimated that domestic private investment increases as a percentage of total investment. At the same time, foreign direct investment (FDI) falls from 9.0 percent in 2001 to 4.5 percent in 2015 due to lower levels of investment for capitalized companies and the emergence of new investment opportunities for domestic sectors, supported in part by the deepening of capital markets as a result of pension system reform.

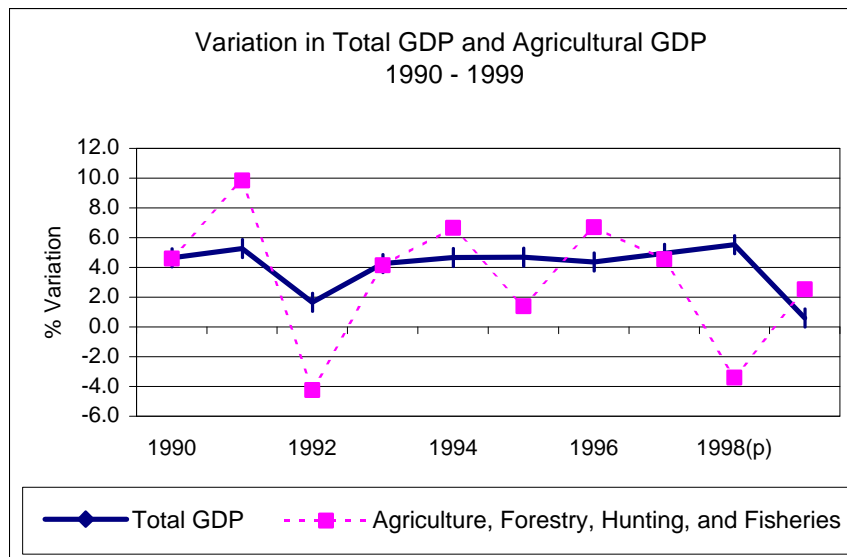
### **C. Vulnerability of the Bolivian Economy**

820. In the 1990s, the economy was affected by external shocks and natural phenomena, particularly at the end of that decade when both types of phenomena had a negative effect on growth rates in *per capita* GDP in 1999 and 2000. It is likely that this contraction of per capita income increased poverty levels.

**Box 9.1**

**Vulnerability of the Agricultural Sector**

*During the 1990s, the Bolivian agricultural sector was affected by the phenomenon of “El Niño” in 1992, 1995 and 1998. During these years, earnings from agricultural activity showed the following growth rates: –4.24 percent, 1.40 percent, and –3.40 percent, respectively. This behavior is explained to a large extent by the contraction that occurred in nonindustrial agricultural activities, industrial agriculture and cattle-raising. In addition, in 1999, the agricultural sector was affected by the phenomenon of “La Niña,” leading to a severe contraction in the industrial agriculture sector. In addition, the program to eradicate coca crops led to a sharp decline in activities linked to this sector, particularly in the years 1998, 1999, and 2000.*



821. The effect on the agricultural sector of climatic phenomena like “El Niño” is recurrent given that it occurs every 3 years. Every two periods the phenomenon occurs with greater intensity. Thus, it is likely that in the next few years this climatic phenomenon will again be affecting agricultural sector production.

822. In addition, over the last 10 years, Bolivia has faced sustained deterioration in the terms of trade. Despite this, it moved ahead with structural reforms in order to strengthen the presence of Bolivian products in international trade. Thus, it is important for the Bolivian economy to consolidate the process of trade liberalization and for the International Community to open up its markets to Bolivian products.

**Box 9.2**

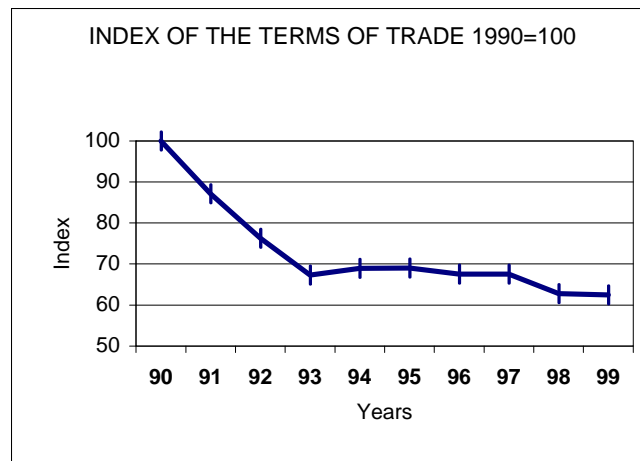
**Terms of Trade**

*External shocks are a factor creating insecurity for the poor given that they lead to fluctuations in incomes, reduce spending levels, and create social tensions within society.*

*It is likely that the Bolivian economy will again be affected by some external shock or by natural phenomena. Should this happen it would have negative effects, particularly on the poorest population, and would delay the achievement of the poverty reduction objectives set forth in the BPRS.*

*During the 1990s, the Bolivian economy faced a systematic deterioration in the terms of trade (TT), more clearly so in the early years of the decade. Starting in 1993, the evolution of the TT stabilized somewhat but the downtrend continued.*

Evolution of the Terms of Trade



823. External shocks and natural phenomena make it necessary to allocate resources through safety nets to replace the losses incurred by households. To estimate the effect of such shocks, a simulation was prepared of the decline in the terms of trade through a reduction in the price of export products that account for a large portion of the structure of national exports.<sup>102</sup> It was assumed that the terms of trade fell by -6.14 percent (-2.92

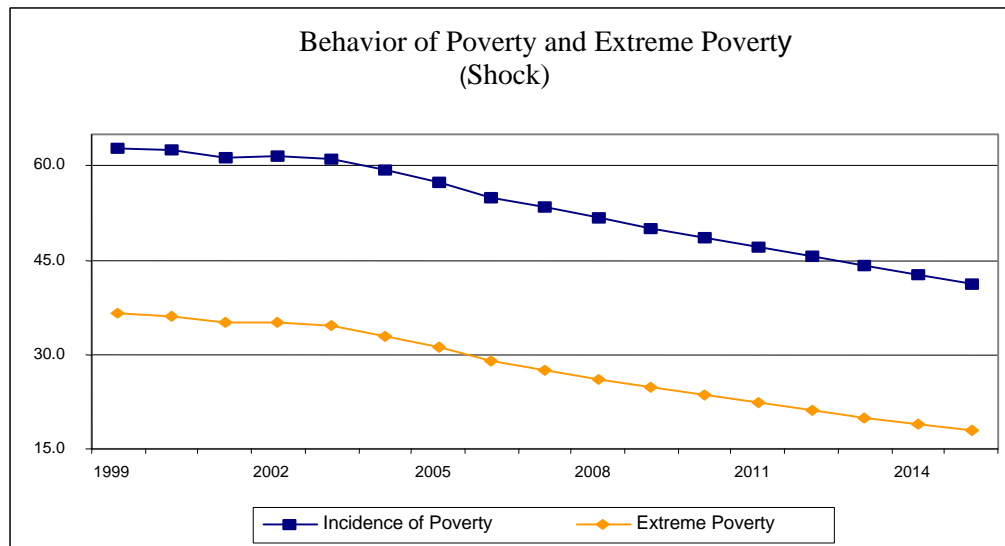
<sup>102</sup> To estimate the effect of the external shock, a decline in the price of soy, silver and zinc was assumed. These goods were considered because of their importance in the behavior and composition of exports. This type of shock is postulated because between 1980 and 2000 there were three episodes of declining export prices for zinc and soy and four for silver. On average, the price returns to its initial level after four years for zinc and after five years for soy and silver.

percent in the baseline scenario) in the year 2002 and -3.41 percent (-0.41 percent in the baseline scenario) in the year 2003, recovering slowly thereafter.

824. The estimated results show that if this situation occurred and there were no resources to counteract the effect, economic growth would slow in 2002, reaching only 1.6 percent (compared with 4.5 percent estimated for the base year), private consumption would fall by -0.1 percent and public consumption by -1.1 percent (compared to 3.6 percent and -0.6 percent estimated in the base year). In the next year (2003) and because a lesser shock is assumed, the economy would grow at a rate of 2.6 percent<sup>103</sup> (compared to 5.0 percent in the case scenario) and private consumption would grow at a rate of 0.7 percent (3.4 percent in the base scenario). This would mean that *per capita* income would fall by 0.6 percent in the year 2002 and grow by only 0.4 percent in the year 2003.

825. As a result of external shocks, the Headcount Index of poverty would increase in the year 2002 and be slower to decline. In comparison with the base scenario, the Headcount Index of poverty would be 1.5 percentage points higher in 2002 and 2.5 percentage points higher in 2003. These results express the magnitude of the loss caused by external shocks and natural disasters in terms of reducing poverty.

Graph 9.2



<sup>103</sup> Based on the effects of the decline in the terms of trade (TT) that occurred in earlier periods, we note that the effect of the decline in the TT extends for 48 to 60 months after which commodity prices recover. This would explain the fact that the economy returns to growth one year after the external shock. In addition, it should be pointed out that economy's recovery to its potential level is easier when starting from a lower base, which is true of aggregate GDP after the external shock.

826. The adverse effect of external shocks and natural disasters affects the effort to reduce poverty and could lead to social unrest due to a decline in incomes and employment and reduced consumption. The economy must also make fiscal adjustments as well as adjustments in the balance of payments so as not to provoke imbalances that could subsequently have a negative effect on future growth rates.

827. The creation of social safety nets is very costly in fiscal terms. It is thus important to ensure flows coming from international cooperation partners for these purposes and to seek preventive mechanisms to provide flexibility and accelerate access to such resources and to earmark them for coping with such external shocks either by creating programs such as the Intensive Employment Program (PIE) or some other type of program to at least avoid sharp declines in incomes and employment for the poorest population.

## **X. INTERNATIONAL COOPERATION IN THE CONTEXT OF THE BPRS**

828. For a low-income country like Bolivia, the involvement of the International Community through both multilateral organizations and bilateral agencies and partner governments has always been a critical issue and very important to development programs.

829. To date, the strategy for Bolivia's relations with the International Community has developed in two broad areas. For instance, there is the relationship with the countries of the Organization for Economic Cooperation and Development (OECD), primarily associated with subjects of international interest like the fight against drug-trafficking, or support for implementation of structural reforms and renegotiation and relief of foreign debt, implementation of technical and financial assistance programs for development and the promotion of foreign investment in Bolivia.

830. Bolivia obtained access to very favorable financing facilities in the context of aid for development. This has allowed it to maintain a significant level of foreign savings that over the last 15 years have financed a large part of its fiscal deficit and imports, inter alia by broadening the scope for public investment.

831. However, as mentioned in earlier chapters, Bolivia is facing two critical problems that it must resolve. First, it must make significant investments in order to achieve meaningful results in combating poverty. Second, and as a result of these investments and other earlier investments, it must allocate increasing amounts of resources to maintaining the sustainability of those investments. In this context, Bolivia began negotiations with multilateral financial bodies and with international cooperation partners in order to prevent the closing of concessionary financing facilities.<sup>104</sup>

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<sup>104</sup> In view of Bolivia's current per capita income level, the World Bank could decide that Bolivia no longer has access to its concessionary credit window. Based on the information  
(continued)

832. To the extent that the effectiveness of disbursements is increased, it will be possible to move ahead more quickly with implementing programs and projects, particularly those relating to poverty reduction. First, the means that the public sector must improve its administrative mechanisms for carrying out projects and satisfy the agreed-upon counterpart requirements for disbursement of foreign resources. Second, the International Community must introduce some flexibility in its disbursement rules and adapt to the priorities defined in the BPRS.

833. In addition, to provide for the sustainability of a development and poverty reduction program over the long term, which is the ultimate objective of the BPRS, Bolivia must gradually overcome its dependence on foreign aid. This will be achieved, as planned, to the extent that goals for growth are achieved, public finances are strengthened, and the employment and income programs provided in the Strategy are implemented. To this extent, the forms and objectives of Bolivia's relations with the International Community should likewise be pursued in other settings, particularly with respect to trade.

834. Based on this background and in an effort to make the International Community a strategic partner for Bolivia's development, the BPRS establishes the need to focus the relationship with the International Community on three specific areas:

- Generally extend to the year 2007 Bolivia's access to concessionary financing windows in order to reduce the negative impact that closing concessionary sources would have on financing of the BPRS and on achieving its results.
- Implement the principles of the New Framework of Relationships between Bolivia and International Cooperation in order to facilitate the disbursement of aid resources and direct them to the objectives of the BPRS.
- Incorporate in the agenda for bilateral discussion those issues that pertain to market liberalization and free trade treaties with the OECD countries in order to provide long-term sustainability for the development policies contained in the BPRS.

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available when the Strategy was prepared, the baseline scenario assumes that the financing agreements with the World Bank will be reached exclusively on the basis of the IDA until the year 2001. During the years 2002 and 2003 (blend period), it is assumed that agreements would be reached under IDA and IBRD terms, whereas starting in 2004 agreements would be reached exclusively under IBRD terms. In the case of the IDB, it is assumed that Bolivia might continue to have access to concessionary funds until 2007, the blend period would correspond to the period 2008-2011 and graduation would thus occur in 2012.



### A. Extending Concessional Financing

835. The various macroeconomic scenarios developed for the BPRS make it possible to observe the relationship between the goals for reducing poverty over the next 15 years and the availability of resources that Bolivia can allocate to financing the BPRS. These scenarios indicate that macroeconomic outcomes (particularly in the savings-investment balance) are highly sensitive to the foreign resources that Bolivia may or may not have in upcoming years.

836. Furthermore, Bolivia's access to HIPC I and II relief facilities is in some cases accompanied by conditions that will limit Bolivia's ability to access other non-concessional financial sources. This would drastically reduce the flow of new credit resources into the country.

837. Estimates indicate that significantly extending<sup>105</sup> the period for accessing foreign financing under concessional terms would mean that Bolivia might have an additional US\$404 million over the 15 years considered in the Strategy.<sup>106</sup> These resources would be allocated to combating poverty and/or more effectively confronting possible external shocks or natural phenomena, for example by using a portion of these funds to create a fund for such contingencies.

838. Graph 10.1 shows this situation in terms of resources in addition to the baseline scenario (gap between the two lines), which Bolivia would receive under HIPC I and II during the same period if the period for accessing concessional sources of financing were extended.

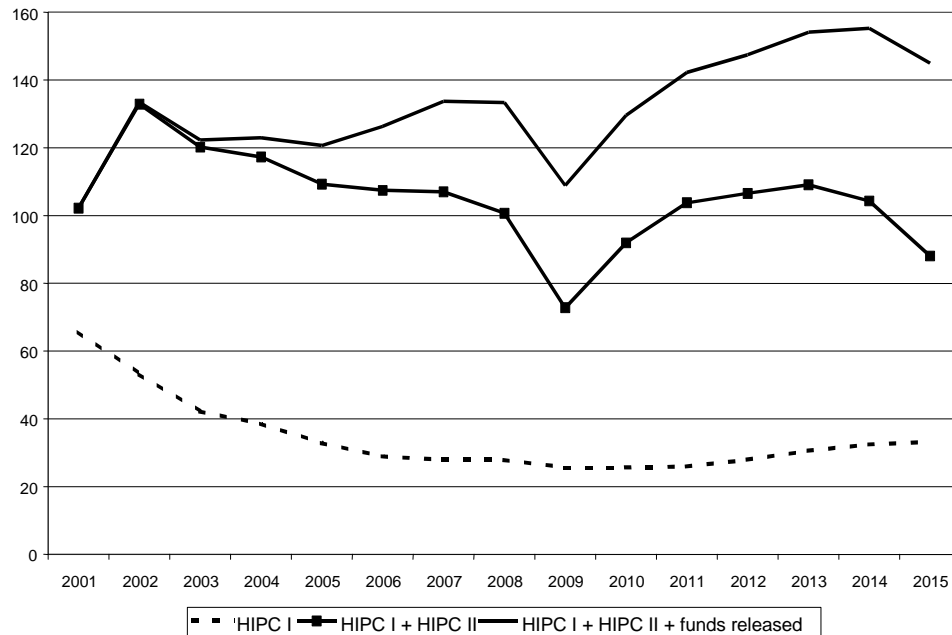
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<sup>105</sup> This means that the World Bank would extend the period for access to financing under concessional terms with IDA resources until the year 2007 and that other sources of multilateral and bilateral concessional financing would behave similarly.

<sup>106</sup> With respect to the baseline scenario, in addition to the IDB, it is assumed that the World Bank would extend Bolivia's access to concessional windows until the year 2007, with similar behavior in other sources of concessional financing.

Graph 10.1

General Extension of Access to Concessional Financing: Funds Released



839. In addition, estimates indicate that if all sources of concessional financing to which Bolivia has access decide to “graduate” the country in 2003, during the period 2001-2015 Bolivia would cease to receive approximately US\$820 million in relief in comparison with the case where these sources extended access to concessional windows until the year 2007.

840. Should Bolivia’s access to concessional financing windows be generally extended until the year 2007, this would increase the ability to allocate resources to combat poverty and achieve the goals defined for reducing it. In contrast, a rapid graduation limits the ability to achieve poverty reduction objectives.

841. In addition, this measure would significantly strengthen the sustainability of foreign debt and debt service in the case of Bolivia. The effects of a possible general extension are seen in the following debt indicators: implicit grant element of donation of the debt, ratio of net present value of foreign debt to exports (solvency) and ratio of debt service to exports (liquidity).

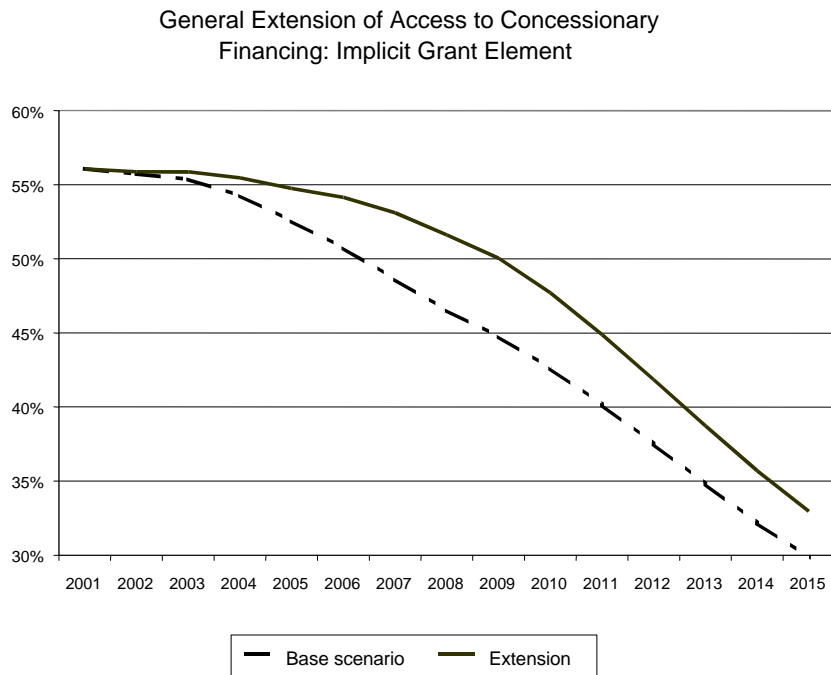
842. The implicit grant element of foreign debt is defined as the degree to which foreign debt is concessional and is expressed in the following relationship:

$$\text{IED} = 1 - (\text{NPV}/\text{NV})$$

Where: NPV is the net present value of the debt and NV is the nominal value of the debt.

843. As can be seen in Graph 10.2, the concessionary component of foreign debt (the difference between the continuous line and the dotted line) increases with extended access to concessionary resources, compared to the implicit grant element in the baseline scenario.

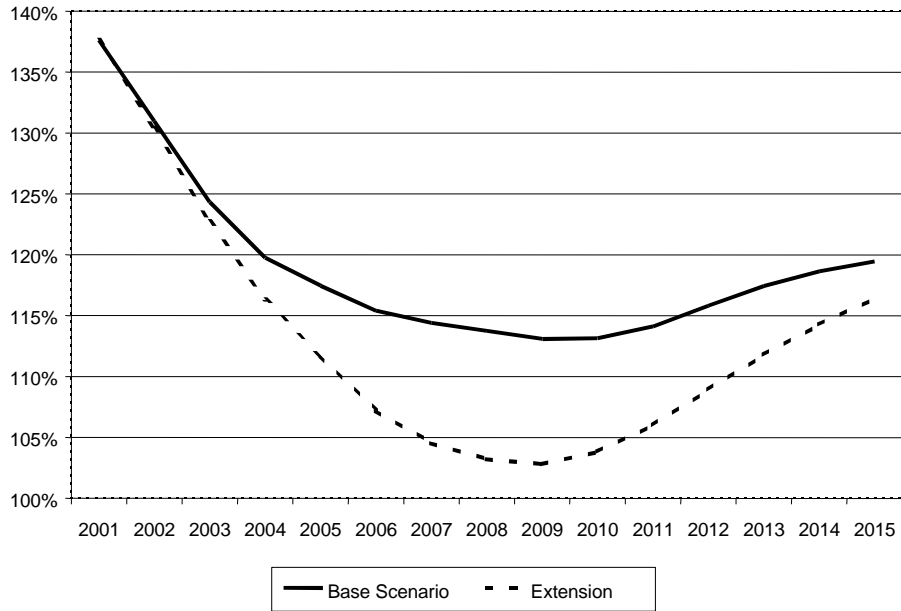
Graph 10.2



844. In addition, Graphs 10.3 and 10.4 show that with a general extension of concessionary financing, the foreign debt solvency and liquidity indicators improve considerably with respect to the base scenario. Thus, the sustainability of foreign debt would be better guaranteed to the extent that Bolivia had an extension in access to concessionary resources.

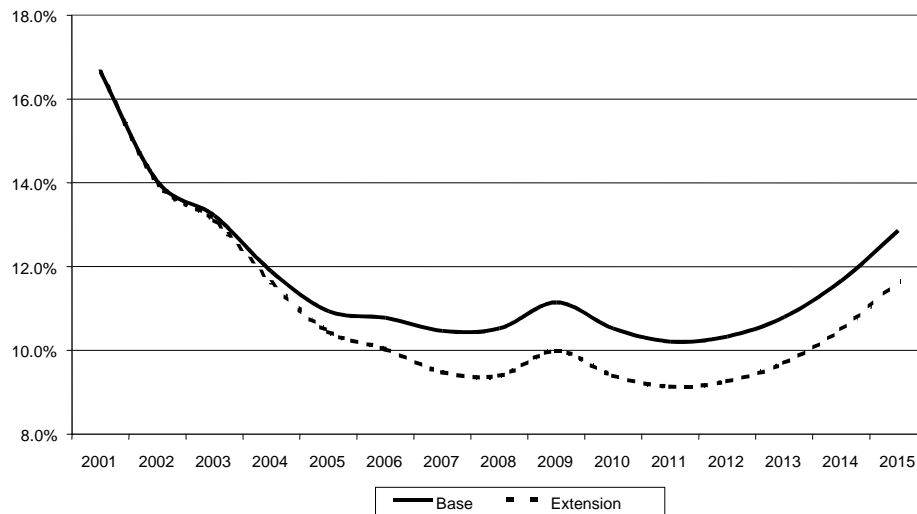
Graph 10.3

General Extension of Access to Concessionary Financing: Ratio of NPV of Debt to Exports



Graph 10.4

General Extension of Access to Concessionary Financing: Total Debt Service Over Exports



845. In conclusion, the consequences in terms of the fight against poverty and from the macroeconomic perspective indicate that a possible general extension of access to concessionary financing would not only strengthen the sustainability of the debt in the case of Bolivia but also increase the chances of attaining the poverty reduction goals established in the BPRS.

### **B. New Framework of Relationships**

846. Over the last 15 years, Bolivia has been one of the countries of Latin America that has received the greatest flow of official development assistance through different credit modalities and donations for various programs and projects.

847. This situation has led to the development and modernization of the methods that partner governments and multilateral organizations use to provide aid to Bolivia, as well as the development of mechanisms to coordinate that aid and provide for better ways of channeling and distributing it. Recently, based on the active operation of the Consultative Group, the government has put into effect the New Framework of Relationships between Bolivia's cooperation partners and the Government in order to effectively channel international aid and direct it to programs jointly prioritized in accordance with a shared philosophy of development.

848. In this coordination process, however, serious constraints have been encountered in Bolivia's capacity to absorb aid, which has meant that about US\$1,800 million is currently held in portfolio and faces obstacles to disbursement.

849. In this context, and considering these resources as well as those that may be committed in the future to finance the BPRS, priority must be given to further application of the new framework of relationships between the government and its international cooperation partners in order to improve the prospects for the execution and effective absorption of international aid.

850. The implementation of this new framework involves recognition of the following principles:

- The country's leadership in defining development priorities on the basis of the BPRS, using it as a benchmark both for reforming the current financing portfolio and for new official aid commitments that may be granted to Bolivia.
- Taking up the commitment to joint responsibility and strengthening coordination mechanisms through the joint financing of specific programs in the priority areas indicated by the government. This means assuming common objectives among the different cooperation agencies and providing mechanisms to channel resources, avoiding miscellaneous, poorly coordinated interventions and projects.

- Giving preference to the use of channeling instruments for budgetary support resources that would allow for great flexibility in reallocating funds to programs that present the best implementation and disbursement conditions.
- Simplifying and harmonizing procedures for contracting, financial management and control, assuming national regulation of these procedures to the extent possible. This also means eliminating conditions on the type of activities that can be financed or the origin of the goods and services to be financed.
- Pursuing a results-oriented focus in the mechanisms for evaluating and monitoring aid, emphasizing attainment of the indicators and goals established in the BPRS.
- Decentralizing the administration of international aid by granting local agencies in Bolivia opportunities to make decisions regarding approval of programs, reallocation of funds and other aspects to streamline the implementation process, as well as the relationship between the government and its international cooperation partners.

851. To the extent that the principles described above are applied, it is anticipated that it will be possible in the short term to carry out a joint effort to reform the current financing portfolios of the various cooperation agencies and organizations and thereafter to substantially improve the ability of public agencies to absorb aid, thus achieving higher implementation and disbursement levels.

### **C. Market Liberalization**

852. One of the structural problems that affects Bolivia most is the deficit in the trade balance. In recent years, the trade deficit has been about 8.9 percent of GDP, which indicates that the Bolivian economy is highly dependent on foreign resources to finance a significant percentage of its imports.

853. To some extent, this situation has been moderated as a result of increased Bolivian exports in traditional products, particularly minerals and natural gas. There has also been significant growth in the area of non-traditional products but it has not yet had a significant impact on the gap between exports and imports.

854. The domestic market is limited and does not allow for large-scale expansion of nontraditional production activity. This has meant that efforts to promote production activities are limited by the lack of markets for various products.

855. In this context, it is not enough to tie the issues of the relationship with and support from the International Community solely to the area of financing and foreign investment. One of the structural solutions to the problem of the sustainability of Bolivia's development process is to open markets, particularly in the more developed countries.

856. This approach has already begun to be suggested as a Bolivian initiative in terms of the scope of the alternative development programs that are being analyzed to confront the effects of the fight against drug-trafficking and the eradication of coca crops. It is understood that the opening of markets and free trade agreements constitute one of the more solid responses for alternative development (“desarrollo alternativo”?) specifically and for the BPRS in general.

857. There is no suggestion in the BPRS that the State alone should be responsible for fighting poverty, for it does not pretend to encourage a return to State paternalism: rather, the fight against poverty calls for joint responsibility to be shouldered by the various members of society and the State. Accordingly, under the Strategy, the fight against social exclusion is viewed as another area for the development of the role of the citizenry, for without citizens who are aware of their rights and obligations it will be difficult to fight poverty. At the same time, however, this requires the political system and society to undertake a coordinated effort to tackle poverty.

858. The emphasis on joint responsibility between the State and society in combating social exclusion induces the BPRS to respect and seek to develop the entire social capital that Bolivians have accumulated, whether in their communities, or in neighborhood, youth, religious, or other organizations. Along those lines, the development of participatory mechanisms for debate and social accountability created through Popular participation should be promoted and used to work on specific matters pertaining to the fight against poverty. Given that poverty and social exclusion are rooted in a variety of causes, and hence are multidimensional in nature, the BPRS endeavors to provide a variety of responses in regard to these different facets of poverty. One of these consists of recognizing that, without involving the poor themselves, it will be impossible to succeed in the fight against poverty. Hence the need to empower society and open up new opportunities so that the population can take part in designing and implementing solutions to the problems of poverty.

859. The first step toward recognizing the need for the general public to become involved in steering the Strategy consists of making democratic debate a central element in improving the quality of democracy. National Dialogue 2000, although it has the limitations inherent in any participatory process, marks a step toward accepting debate between society and its political system in order to reach agreement on the central features that will define the course of a strategy to fight poverty.

860. The National Dialogue, which was the essential forerunner and source of input to the BPRS, was designed as a public forum in which society’s participants, both territorial and functional, could join with the political system’s players and agree on a State policy for the fight against poverty and social exclusion. Thus, the key feature of the BPRS, beyond its technical components, is that it has endeavored to reflect the conclusions of the National Dialogue, Jubilee 2000, the Liaison Committee [*Comité de Enlace*], and other participatory mechanisms; in other words, the BPRS draws on a deliberative process so that those agreements may be transformed into public policy, and indeed into the policy of the State, thereby transcending the customary short-term perspectives that are common in Bolivia.

861. The BPRS is based on a recognition of the existing institutional structure, which it seeks to utilize and enhance. Accordingly it reflects the conclusions emerging from the National Dialogue, and the emphasis placed on recognizing the municipalities as the most legitimate and suitable institutional arm to develop actions to fight poverty. In that sense the BPRS carries a clear message of promoting and deepening decentralization, as it fully embraces the principle of subsidiarity.

862. Corruption is one of the obstacles leading to inefficiency by the State in implementing public policy, and is an especially sensitive issue. Participants in the National Dialogue identified problems in regard to the exercise of discretionary powers and corruption in the use of public resources to fight poverty, and it is no doubt for this reason that they proposed an automatic mechanism for transferring HIPC II resources to the municipalities, similar to the mechanism used for the Popular Participation initiative [*Participación Popular*]. The actions of the BPRS are based in part on the agreement which emerged from the National Dialogue and takes a progressive approach toward the use of the HIPC II resources in distributing them on the basis of poverty criteria.

863. Nevertheless, the issue of corruption and the discretionary use of funds goes beyond the administration of the HIPC II funds, and so the BPRS includes the monitoring and social control mechanisms agreed upon in the National Dialogue, but does so from the standpoint of strengthening the control institutions that already exist, such as the vigilance committees and departmental councils. Under the BPRS it is not felt that these institutions should be substituted; on the contrary, it is felt that they must be strengthened.

864. It is also recognized that the State requires strengthening as well: it needs to be made highly competent and capable, so that it can become a genuine instrument of public service and provide efficient, transparent administration. This objective is being pursued through specific policies aimed at strengthening key public bodies in implementing the BPRS.

865. The BPRS is not based on the view that the fight against poverty ends with the effort to assure greater social investment. Rather, it assumes that existing resources must be used with greater transparency, and it places emphasis on improving the quality of social investment; for social investment it is not enough to increase the amount of resources, it must also be of higher quality.

866. The National Dialogue proposed introducing equity into the distribution of HIPC resources to the municipalities by using poverty indicators, a mechanism which ensured that the resources would reach the poorest segments of the population. The BPRS embraces those conclusions, and seeks to promote equity not only by adhering to that distribution criterion, but also by following the same approach and implementing a specific compensation scheme by converting the Development Funds and assuring the transparent administration of resource transfers.

867. However, it is not enough to support the automatic transferring of HIPC II resources to the municipalities: it is also necessary to ensure that the municipalities will utilize those



resources for the priorities identified in the National Dialogue, which are included among the priorities included in the Strategy. In order for that to happen, there will have to be joint responsibility not only between the State and society, but also between the central government (which must turn those funds over automatically to the municipalities) and the municipalities, which must make use of those funds in accordance with the priorities laid down in the Strategy.

868. The BPRS explicitly recognizes that extreme poverty is prevalent in rural areas, and that indigenous people and peasants – and particularly women in both groups – suffer most acutely from social exclusion. It is in far-flung areas that one encounters the most serious manifestations of social exclusion on the basis of ethnicity and gender, and for that reason a focus on combating rural poverty holds a high place among the actions envisaged pursuant to the BPRS. Nevertheless, even with the fight against rural poverty having been highlighted in this way, the BPRS reflects the understanding that a great deal more practical work is still needed if further headway is to be achieved in this matter.

869. Although the BPRS highlights actions aimed at tackling rural poverty, rural and urban areas nevertheless share some points in common in this regard. For example, in both rural and urban areas the State's effort is essential in order to create opportunities for developing human capital, for without human capital no country (let alone Bolivia) can hope to extricate itself from poverty or to eliminate social exclusion.

870. The BPRS incorporates a cross-cutting treatment of gender, environmental, and ethnic issues. However, it recognizes the need for a more extensive and considered approach so that these subjects, which are fundamental to the struggle against poverty and the quest for equity, may be dealt with more thoroughly. The BPRS still reflects the tension that exists between treating these subjects as cross-cutting issues and treating them as individual sectors.

871. Implicit in the BPRS is an awareness of the fact that, owing to the growing pace of migration from the countryside to the cities, the poor are more heavily represented in urban areas in absolute terms; and for that reason the BPRS contains specific policies aimed at combating urban poverty. However, at a time when the State is no longer the largest employer, it is no simple task to solve employment problems, which are the most severe challenges confronting those who live in the cities.

872. The concepts embodied in the BPRS and the political aim of improving the quality of democracy are explicitly reflected in objectives and targets that are feasible, quantifiable, and verifiable, and which must be observed by the political system and society. In that regard, it is essential that political parties and entities from civil society monitor the fulfillment of the targets laid down in the BPRS.

873. If society and its stakeholders were empowered when the components of a strategy for fighting poverty were proposed, then from that point forward they are imbued with a greater degree of accountability – because they will require additional empowerment, based on the premise of shared responsibility, in order to exercise social control alongside the

political system in an effort to determine whether or not the targets of the BPRS are being fulfilled. Similarly, such coordination will be essential to improve the design and implementation of social policies.

874. The institutional structure associated with the Strategy could not be finalized without waiting for the National Dialogue to reach its conclusion, for the National Dialogue sets out the lines of institutionalizing a system for exercising monitoring and social supervision with respect to the fulfillment of the Strategy; however, establishing a mechanism through which that social control can be exercised requires the strengthening of the existing public institutions without adversely affecting the participatory institutions that have entailed so much effort for Bolivia's society and democracy to achieve.

875. The State's commitment to allowing societal supervision with respect to the fulfillment of the BPRS's objectives must be made explicit in its commitment to provide timely, transparent information regarding the fight against poverty. What are needed are clear, easy to interpret indicators which will show whether progress is indeed being made in line with BPRS objectives; but just as important as the timely preparation of indicators is ensuring a fully democratic approach toward their use.

876. The BPRS lays out a general pathway for the efforts to be undertaken to overcome social exclusion and combat poverty, but it is a pathway susceptible to continual improvement. Each government authority can make the adjustments it considers most effective in order to achieve the best results, without prejudice to the objectives that have prompted the participants to establish particular priorities and identify specific areas as requiring urgent attention.

877. The BPRS is an attempt to interpret the will, the priorities, the concerns, and the agreements that were the outcome of the participatory mechanisms which led to the holding of National Dialogue 2000. Certainly, it reflects a State's reading of that outcome, but the key point is that there is a will to take the agreements reached between Bolivian society and its political system and to convert them into public policy and State policy. The BPRS has its limitations, but as a living document, and insofar as the will and capacity to implement it exist, it can be improved, following an incremental approach that does not attempt to sweep everything aside and eschews constant radical overhauls. An example is the workshop organized by the government, with the participation of civil society, entitled "The Government Listens," with a view to improve the Strategy. What is needed is an effort to achieve continuity to press forward the express demands society has made.

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