

IOB Evaluation Sector-wide approach

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TABLE OF CONTENTS

ABBREVIATIONS

INTRODUCTION

- 1. CONTEXT: CONDITIONS FOR THE APPLICATION OF THE SECTOR-WIDE APPROACH**
 - 1.1. From optimism to disappointment
 - 1.2. Country eligibility and interpretation by the Dutch embassy of the context and conditions for the sector-wide approach in Dutch bilateral aid
 - 1.3. Conclusions

- 2. IMPLEMENTATION OF THE SECTOR-WIDE APPROACH AND CHANGES TO BILATERAL ASSISTANCE FOR BOLIVIA**
 - 2.1. Development assistance prior to 1999
 - 2.2. Sector choice
 - 2.3. Implementing the sector-wide approach
 - 2.4. Changes to the Dutch co-operation portfolio: disbursements, exit and concentration
 - 2.5. Conclusions

- 3 TOWARDS LESS EARMARKED FUNDING**
 - 3.1. General overview
 - 3.2. Structural Macro-aid
 - 3.3. Sectoral programme aid
 - 3.4. Conclusions

- 4. DONOR COORDINATION AND PROGRESS TOWARDS HARMONISATION AND ALIGNMENT**
 - 4.1. International Development Assistance
 - 4.2. Harmonisation at national level
 - 4.3. Harmonisation and alignment in the sectors
 - 4.4. Conclusions

- 5. OWNERSHIP, INSTITUTIONAL STRENGTHENING AND EFFICIENCY**
 - 5.1. Ownership
 - 5.2. Strengthening the recipient government's implementation capacity
 - 5.3. More efficient management and sustainability of aid
 - 5.4. Conclusions

- 6. EXTERNAL ASSISTANCE, THE SECTOR WIDE APPROACH AND POVERTY**
 - 6.1. Poverty Reduction and external assistance
 - 6.2. The Sector Wide Approach and poverty reduction
 - 6.3. Conclusions

- 7. CONCLUSIONS**

Annexes

1. Documentatation and literature
2. Persones met
3. Toranzo,C. Análisis del contexto de formulación y desarrollo del enfoque sectoral

Abbreviations and Acronyms

ADN	Acción Democrática Nacionalista
AEV	Aan Elkaar Verplicht (Mutual interests, mutual responsibilities)
ARI	Acuerdo de Reforma Institucional (Institutional Reform Agreement)
CAF	Corporación Andina de Fomento
CDF	Comprehensive Development Framework
CFFA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Report
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee
DGIS	Directorate-General for International Co-operation
DFID	Department for International Development
EBRP	Estrategia Boliviana para la Reducción de la Pobreza
FAO	Food and Agriculture Organisation of the United Nations
FAM	Federación de Asociaciones de Municipios
FOCAS	Fondo de Apoyo Común al SIBTA
FOSC	Fondo para el Fortalecimiento de Organizaciones de la Sociedad Civil
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Country
IBRD	International Development Association
IDA	International Bank of Reconstruction and Development
I(A)DB	Inter-American Development Bank
IMF	International Monetary Fund
IOB	Policy and Operations Evaluation Department
ISOA	Institutional and Sector Organisational Analysis
ISS	Institute of Social Studies
MNR	Movimiento Nacionalista Revolucionario
MTEF	Medium Term Expenditure Framework
NGO	Non Governmental Organisation
OECD	Organisation for Economic and Social Development
PAGM	Programa de Apoyo a los Gobiernos Municipales
PAP-Holanda	Programa de Apoyo Presupuestario del Reino de los Países Bajos.
PLANE	Plan Nacional de Emergencia
PRGF	Poverty Reduction Growth Facility
PRI	Programa de Reforma Institucional
PRSP	Poverty Reduction Strategy Paper
PSAC	Programatic Adjustment Credit for Decentralisation
SAFCO	
SBPC	Sistema Boliviano de Productividad y Competitividad/ Bolivian System for Productivity and Competitiveness
SEOR	Stichting Economisch Onderzoek Rotterdam
SIBTA	Sistema Boliviano de Tecnologías Agropecuarias
SIDA	Swedish International Development Cooperation Agency
SIGMA	Sistema Integrado de Gestión y Modernización Administrativa

SIMECAL	Sistema de Medición de Calidad
SWaP	Sector Wide Approach
UDF	Unidad Fiscal de Decentralización
UK	United Kingdom
UNDP	United Nations Development Programme
USD	United States Dollar

INTRODUCTION

The sector-wide approach has been applied to Dutch development assistance as the 'organising principle of bilateral aid.' The policy documents state that its objective is to increase aid effectiveness by enabling the recipient country to pursue its own multiyear policy with the support of several donors. In the sector-wide approach, the recipient country's government formulates policy for a specific sector to which all parties commit themselves for a number of years. Donors act in concert under the direction of the government and make agreements with the government on how the sectoral programmes will be financed. A sector is defined as "a coherent set of activities at macro, meso and micro level in defined institutional and budgetary frameworks for which the government has formulated policy".¹

On 17 December 2003, the Minister for Development Cooperation, speaking to the House of Representatives, announced her plans to evaluate bilateral assistance provided according to this principle. Now that four years have passed since the sector-wide approach was introduced, the evaluation can contribute to reports to parliament on its implementation and the results it has achieved, and to the development of bilateral aid policy. The independent Policy and Operations Evaluation Department (IOB) of the Dutch Ministry of Foreign Affairs is conducting the evaluation.

The evaluation's objectives are to assess "*whether and to what extent the introduction of the sector-wide approach has improved conditions for achievement of the main objective of Dutch development policy, poverty reduction*". To this end, the following key questions have been formulated:

- a) *To what extent have the intended changes in Dutch policy been achieved and what explanations can be given for the findings?*
- b) *To what extent have the intended changes in the recipient country been achieved and what were the most influential factors?*

As part of the research methodology, case studies were conducted in five selected countries, among them Bolivia. After a preparatory desk study, the evaluation was carried out in Bolivia from 16 October to 4 November 2004. The team consisted of Fernando Ruiz Mier, consultant, Willem Cornelissen, SEOR BV, Erasmus University, Rotterdam and Nico van Niekerk, IOB. Carlos Toranzo wrote a background paper on the political context (see annex 3). This report covers the period from 1998-2004. The first drafts were commented on by the Embassy in La Paz, after which a final draft was finished in september of 2005. This and the other country reports are attached to the final synthesis report of the overall evaluation.

This report is structured as follows. The first chapter describes the general context as a way of clarifying the conditions under which the sector-wide approach was implemented in Bolivia. Chapters 2-4 deal with the implementation of the sector-wide approach by the Dutch development co-operation to Bolivia. The fifth chapter analyses the extent to which the effects envisaged in Bolivia have been achieved. The final chapter presents the conclusions, organised around the three central evaluation questions to be addressed.

¹ Sector-Wide Approach Support Group (SSB). (2000:5) The Sector Wide Approach, organising principle for bilateral development cooperation

1. CONTEXT: CONDITIONS FOR THE APPLICATION OF THE SECTOR-WIDE APPROACH

1.1. From optimism to disappointment

From 1985 onwards, in response to the serious economic crisis of the preceding years, Bolivia implemented an orthodox economic stabilisation programme which marked the beginning of an ambitious and comprehensive programme of institutional, social and economic reforms. After a long period of political instability and military rule, Bolivia gradually transformed into a country with a relatively stable democratic system, a market-driven economy and improving social conditions. Nonetheless, it remains one of the poorest countries in the Americas and almost two-thirds of its population still live in poverty. The international donor community welcomed Bolivia's active reform policy and responded quickly by pledging (more) support. Between 1990 and 2001, foreign aid averaged more than 9% of GDP.

In 1999, when the sector-wide approach was introduced, Bolivia was governed by a broad, multi-party coalition under the leadership of President Hugo Banzer, a former dictator and retired general who became elected president. On several occasions, the Banzer government had announced its intention to continue implementing the reform agenda and in search for support, it took various initiatives aimed at intensifying the coordination with the main donors.

Only two months after his election in 1997, President Banzer called for a National Dialogue to discuss government's economic and social policy framework. The then vice president, Jorge Quiroga played a central role in the development of the new framework and the National Dialogue. The government's plan of action (*Plan Operativo de Acción* - POA) was presented as the policy framework to guide and coordinate external aid. The donor community appreciated this initiative, since it was fully in line with their new harmonisation and ownership agenda. Quiroga and his team were considered to be a small but strategically important group of change agents for implementing new reforms with whom donors, among them the Dutch Embassy, established close working relations.

In 1998, Bolivia "volunteered" to become a pilot for implementing a Comprehensive Development Framework (CDF), an instrument developed by the World Bank². In exchange, Bolivia could count on additional concessional loans.

In April 2000, a second national dialogue was launched, now with the objective of involving civil society organisations in elaborating the Poverty Reduction Strategy (PRS). With the endorsement of its PRS-Paper (PRSP)³ by the World Bank and the International Monetary Fund in 2000, Bolivia became one of the first countries in the world to meet the HIPC II Completion Point requirements and qualified for the debt relief provided by this initiative.⁴ The Bolivian PRSP was appreciated by the international donor community, thanks to the important role assigned to the municipalities in the strategy and the decision to draft a National Dialogue legislation institutionalising the allocation of most HIPC II –freed resources to them⁵. A bilateral donor appraisal mission (which was organised apart from the IMF/World Bank Mission), however, was critical towards the financial sustainability of the strategy.

² In January 1999, the World Bank launched the CDF as a coordination matrix for development cooperation based on four principles: a long term holistic development framework, results orientation, country ownership and country-led partnership. (World Bank 2003. *Toward a Country-led Development, a Multi-Partner Evaluation of the CDF*).

³ In Spanish: *Estrategia Boliviana para la Reducción de la Pobreza* (EBRP).

⁴ Formally, after a Joint World Bank - IMF Staff Assessment, a PRSP is endorsed (not 'approved') by the respective Boards.

⁵ HIPC does not provide 'fresh' resources, but as a result of the reduction of the stock of debt, the debt service due reduces a well. In consequence, budgetary resources –otherwise destined to debt service– are 'freed' for alternative use. It was internationally agreed upon that these resources would be destined to poverty reduction

Deteriorating conditions

From the end of 1999 onwards, however, it became clear that the World Bank and other donors had misinterpreted the internal power relations in the Bolivian government. The efforts of the vice president and his team to modernise public administration in close alliance with the donor agencies, were increasingly opposed by the president and the old political elite of the governing political party Acción Democrática Nacionalista (AND), who successfully sought to isolate the Vice President.

With the old political elite gaining more influence in the government, corruption and patronage became widespread. Jobs were distributed among members and affiliates of the coalition parties. In absence of a law on career in the public administration, most functions in civil service were labelled as 'confidence posts' and staffed with loyal party members and not with the best professionals. As a consequence, the public administration was rapidly deteriorating, seriously affecting the quality of the public administration. This change should not have been a surprise to the donors, since the two most important political parties in the government coalition were well-known for their long tradition of clientelism.

Simultaneously perspectives for economic development were deteriorating. After some years of a modest economic growth of around 4%, since 1998, the growth started to slow down. Bolivia's economy proved to be highly vulnerable to external shocks. The slower economic growth of Bolivia's main trading partners had a knock-on effect on Bolivia for two reasons. First, as a result of reduced demand for Bolivian goods and services and second, a decline in the remittances from Bolivian workers in Argentina. The Brazilian and Argentinian devaluations strongly affected Bolivia's competitiveness in international trade. As a result of government's policy to eradicate the coca leaf production, triggered by the United States 'certification' requirements, a 70% drop in coca production between 1998 and 2002 further reduced domestic incomes.⁶ While the external shocks resulted in a slowdown in growth of the formal economy, the reduction of coca leaf production in combination with strict control on contraband affected the liquidity in the informal sector. The combination led to a drop in per capita income, an increase in unemployment and sustained high levels of poverty.⁷

From 2000 onwards the economic crisis became more serious, rapidly leading to an equally serious fiscal crisis. The economic recession and the freezing of prices for Bolivia's export products in the energy sector had led to a significant decline in tax revenues. At the same time, expenditure had risen sharply as the result of the constant increase in the cost of reforms (pension reform, increase in social expenditure) and interest payments on international debt. Since Bolivia went 'off-track' during the presidential election and failed to introduce tax reforms, the HIPC Completion Point triggers could not be met. In consequence, no Poverty Reduction Growth Facility (PRGF) agreement was signed between Bolivia and the IMF after 2000. Faced with these conditions, the government was primarily concerned with overcoming subsequent fiscal crises.

activities. In reality, Government (with assistance of World Bank and IMF staff) had prepared an Interim-PRSP that was submitted to Joint Staff Appraisal in January 2000 without prior consultation with other stakeholders. The consultation through the Second National Dialogue was officially launched in May 2000 and concluded in August 2000 (WB (2000:2) Action Learning Program on PRSPs: Case study 1, Bolivia Process Document of the Country Experience). "The drastic shift between the dialogue process and the creation of the strategy itself left some donors wondering whether the National Dialogue 2000 had really been a dialogue or only a show for the donors." (ISS (2003) Evaluation and monitoring of Poverty Reduction Strategies in Latin America, the Bolivian Poverty Reduction Strategy: "Yet another Brilliant Idea?" SIDA December 2003: 8.)

⁶ The main sources of the monetary system of the informal sector were remittances from abroad, contraband trade and coca leaf production. With the United States 'certification' requirements for eradication of the coca fields, the improved customs border control services and the reduction in remittances as a result of deteriorating economic conditions in neighbouring countries, the informal sector (incl. the El Alto urban area) was severely affected.

⁷ World Bank (2004) *Country Assistance Strategy Bolivia*.

Despite reasonable rates of growth during the 1990-1997 period, poverty reduction had been slow. When economic growth slowed down from 1998 onwards, poverty increased again. Though the relative number of poor people had diminished during the previous decade, the absolute number of poor had increased by 200,000. Almost two-thirds of Bolivian families live below the poverty line of USD 2 per day. Surveys revealed that in the perception of the extreme poor (those living with an income below one USD per day) relative poverty had deepened as a result of a broader gap between 'rich' and 'poor'. In the perception of a vast majority of the population, twenty years of structural reform policy from 1985 onwards has failed to generate employment and economic prosperity.

The results of the general elections of June 2002 made it clear that the traditional party system was collapsing and losing its credibility. Growing disenchantment with the corruption by the traditional political parties and lack of improvement in the economic situation of the poorer strata of the population caused the opposition to radicalise. Former President Sanchez de Lozada managed to win the elections, with only 22% of the votes. With the assistance of a broad, but internally divided coalition he was elected as the new president in August 2002.

The rising popularity of new political forces among rural and indigenous people was an expression of widespread dissatisfaction with -and opposition to- existing political elites and to the policies associated with neo-liberalism⁸. A sharp ideological conflict began to emerge between supporters of two opposing positions. The first defending the democratic system, based on traditional political parties, and in favour of a market-driven economy. The second position called for direct ('popular participation') democracy and a return to a stronger steering of the economy by the state. Geographical divisions sharpened as the richer Departments, in possession of natural gas or other natural endowments, started to press for greater autonomy.

The crisis in 2002 and 2003 had almost completely paralysed government. During this period, the relationship between government and international donors was at its worse. In part, this was due to the new government's response to the close relationship they had maintained with the former government. Mainly, however, it was due to the government's inability to redefine its relationship with donors. As the fiscal crisis deepened, aid provided for funding of specific programmes was increasingly used to make up the deficit. In 2003, in an attempt to qualify for new concessional financing, Bolivia's new President, Sanchez de Lozada, announced his proposal for tax reforms. This triggered a new series of violent protests against government. When the government proposed signing a contract with a consortium of multilateral enterprises for the exploitation of natural gas, social unrest spread over the country.

The Vice President takes over

In October 2003, at the Consultative Group in Paris, government requested the donor community's support. Government was, however, unable to provide a clear idea of its medium or long-term development horizon or to dispel doubts about whether or not it could operate more effectively. By the time the Consultative Group had finalised, the official delegation – as well as many embassy representatives - could not return to Bolivia due to a general uprising. The protests were finally suppressed by the army, at the expense of more than 59 deaths. President Sanchez de Lozada was forced to resign and left the country. Vice President, Carlos Mesa was sworn in as his constitutionally successor on 17 October 2003.

⁸ Such as the Movimiento al Socialismo (MAS) which became the main opposition party under the leadership of Evo Morales.

The Mesa government was formed by a group of mostly independent professionals and it was considered to be honest and transparent. Politically, however, it lacked support, and it had insufficient political power and backing to deal with the numerous claims and pressures by a wide variety of interest groups. In June 2005, confronted with a new wave of protests and roadblocks, Mesa had to resign. His successor, Rodriguez, President of the Supreme Court, has called for new elections in December of 2005. Policy towards the future of the hydrocarbons sector remains a source of sharp tensions in Bolivian society and between the government and the opposition.

1.2. Country eligibility and interpretation by the Dutch embassy of the context and conditions for the sector-wide approach in Dutch bilateral aid

The selection of Bolivia as a partner country

When the basic criteria for the selection of countries eligible for long-term bilateral assistance were applied to Bolivia in 1999, they produced the following results:

a) Poverty

Despite its relatively high per capita GNP (USD 925), Bolivia satisfied the first criterion because of its eligibility for IDA assistance. Since Bolivia passed the threshold level of IDA eligibility, it was supposed to lose its 'soft loans only' eligibility from 2004 onwards and to 'graduate' to a mixed regime of soft IDA loans and market rate IBRD loans. However, as a result of the political and economic crisis, the 'graduation' was postponed. In 2004, it was expected that Bolivia would graduate from its IDA-only status in 2006

b) Socio-economic policy

Bolivia had successfully initiated a series of economic and social reforms. The positive assessment was mainly based on the success of the macroeconomic stabilisation programme and the perception of the way the first Sanchez de Lozada government (1994-1998) had implemented the ambitious structural reform programme. The Law on Popular Participation (1994) was considered to be an important initiative in achieving a more equitable distribution of government revenues and creating proper conditions for local development.

c) Good governance

After a long history of military rule and (military) authoritarian regimes, democracy looked relatively stable. Bolivia performed well on governance criteria (an exception being the high scores on corruption).

In 1998 Bolivia ranked in the top of the IDA performance scale and the conclusion was that it easily met the established criteria.⁹ The development relationship that had existed since 1984 between the Netherlands and Bolivia was another reason to include Bolivia in the list of countries eligible for Dutch support.

In 1998, the World Bank CPIA ranking was used as a criterion to assess the quality of the policies pursued. Bolivia ranked in the highest quintile and even among the top five countries at the time. However, only four years later its ranking had dropped two quintiles. Notwithstanding this downward trend during the second round of selection of counterpart countries for the structural bilateral development assistance by the Netherlands in 2003, Bolivia was retained as partner country.

The embassy's assessment of the conditions for the sector-wide approach

When the sector-wide approach was introduced into Dutch bilateral policy, the embassy made a positive assessment of opportunities to organize its development cooperation

⁹ Used to express whether a country pursued 'good economic policies' and whether it had a sound record on the IDA loan portfolio.

accordingly in Bolivia. The major justification for this optimism was found in the willingness of government to coordinate intensively with the donor community and its involvement in the PRSP process. The embassy was prepared to adopt the new Government Plan as the guiding framework for implementing the sector-wide approach in Bolivia:

“(..) the establishment of the Nuevo Marco de Relacionamiento Gobierno-Cooperación Internacional hacia el Siglo XXI (..) is fully in line with the sector-wide approach. With respect to this, it was agreed that from our perspective it is important to support this process, to focus as far as possible on the Pillars’ coordination structure and to advocate the process amongst donors.”¹⁰

However, the tone of the embassy’s annual reports and internal reports changed quickly, indicating how fast conditions for implementing the sector-wide approach were deteriorating. The then Ambassador firmly believed that the sector-wide approach was inappropriate for effective poverty reduction in Bolivia, since it focused too exclusively on central government institutions. “In Bolivia,” he pointed out, “ the main objective of the policies these institutions are required to implement is to safeguard the economic position of the elite”.¹¹ From then on, more attention was paid to the structural limitations of the public institutions and the politicisation of the government as major obstacles to progress in implementing the sector-wide approach in Bolivia.

After president Mesa assumed power, the embassy argued in favour of backing the new government, expecting new opportunities to resume intensive collaboration and to put an end to stagnation in many of the externally supported programmes and institutions. However, political instability and unrest soon returned, and prospects for development assistance in the country remained very uncertain. In its Medium-Term Plan for 2005 to 2008, the embassy has made a more cautious assessment of conditions for providing assistance in the years to come, and identifies the main risks in each of the areas in which future activities are planned.

1.3. Assessment and conclusions

The events during the last decade demonstrate that, despite comprehensive reforms and high levels of external assistance, Bolivia’s basic problems of severe inequalities in society and marked divisions along ethnic and geographical lines remain unresolved. The political and institutional climate remains uncertain and unstable, mainly due to general frustration about the failure of democracy and the incapacity of externally supported reforms to deliver more tangible socio-economic results.

Optimism about the introduction of the sector-wide approach in Bolivia was based on a positive assessment of reform performance in the past and the trust placed in the initiatives taken by a small group of ‘change agents’ under the leadership of the Vice President. Confronted with growing pressure to put their new approaches and aid policies into practice, the embassy, like many other donors, tended to overestimate the positive side, and did not assess (correctly) the likeliness that the favourable conditions would persist.

With the benefit of hindsight, it can be argued that the political and economic context was not properly appraised. As far as the institutional and political context is concerned, the irony is that the international aid agencies, including the Dutch embassy, were putting their trust in public institutions at a time when these were deteriorating rapidly due to wide-spread

¹⁰ Embassy La Paz. Development of a New Development Cooperation Programme, minutes of the meeting of 3 February 2000: page 5

¹¹ Internal memorandum Head of Mission of 12 may 2000 and 2 june 2003; the 2003 memorandum was written just before his posting to Bolivia came to an end; new staff disagreed with his conclusions on the conditions for the sector-wide approach and stressed that this memorandum mainly expressed the Ambassador’s personal views.

corruption and patronage. Faced with this reality, and not being prepared for a worst case scenario, the feeling among aid agencies, quickly turned from optimism to disappointment.

2. IMPLEMENTATION OF THE SECTOR-WIDE APPROACH AND CHANGES TO BILATERAL ASSISTANCE FOR BOLIVIA

2.1 Development assistance prior to 1999

Main characteristics

Prior to responsibilities being delegated to the embassies in 1997, the Directorate-General for International Co-operation (DGIS) had been drafting Plans for the Andes Region, and had been doing so since 1987. The country-specific strategy for Bolivia was to focus on rural development and the social sectors. Of the approximately NLG 75 million (€34 million) disbursed annually, about 26% was earmarked for agriculture and rural development (IOB 1998:4). Up to 1999, the cooperation programme in the rural sector was characterised by a variety of projects of which slightly more than half (15) had a budget under €100,000.¹² Most projects were geographically concentrated in the poor highland provinces of Cochabamba, Chuquisaca and Potosí. All activities were carried out in the project modality, sometimes through international organisations (FAO) or with other bilateral projects. Most projects were directly administered by the embassy in La Paz.

At that time, Bolivia was not yet tuning in on budget support instruments, but pursued a policy of joint funds ('fondos') aimed at concentrating donor's contributions aimed at a higher effectiveness in outcome and efficiency in management and administration. In several occasions the Netherlands had contributed to the Social Investment Fund.

At the end of 1998, the main characteristics of Dutch development activities in Bolivia were the following:

- a) Around 50% of the assistance concentrated on supporting two central government reforms: Popular Participation and Education Reform. A significant sum was also earmarked for balance of payment support and debt relief. These programmes were fully aligned with the national political and administrative frameworks and were 'on budget'.
- b) The remainder comprised a wide range of projects in various sectors and themes, for example health, environment, rural development, energy, gender and urban development. They were generally registered with the Vice Ministry of Public Investment and External Finance (VIPFE). However, only a few were included in the national budget.
- c) The sectors receiving the largest portion of total funding during the 1996-1999 period were rural development (€34 million) and Environment (€16.6 million).
- d) Approximately 40 of the programmes and projects had a budget of over €100,000. There were about 50 with a smaller budget.
- e) A wide range of counterparts received Dutch development assistance. Apart from central government, these included prefectures, municipalities, multilateral organisations (FAO), universities, church-related organisations, NGOs, Foundations and civil society organisations.

In its 1997-1998 annual report, the embassy stressed the lack of proper conditions for increasing programme aid, given the weak institutional capacity of central government and widespread corruption. So priority was assigned to local and regional interventions rather than interventions at central level.

"It is precisely because Popular Participation has made a process of democratic local development possible that it is important to give priority to the funding of programmes and projects at local level." (Annual Plan 1999).¹³

¹² Projects were aimed at land use and registration (ZONISIG and land registry); technical innovation (Rhizobiologia, Poscosecha and Fertisuelos), integrated rural development (ACLO and PROCADÉ); projects with a mixed agriculture and environmental objective (Minka and FAO Potosí) and projects aimed at production for the market (PROSEMPA [seed potatoes] and SNV Economic Grassroots Organisations).

¹³ " (...) at micro-level (grass-roots organisations and municipalities), an important and positive process of awareness and democratic growth is unfolding. The provisional conclusion that can be drawn from this is that support should increasingly be given to activities at local (government and NGO) level, at the expense of those at

In 1997, a major restructuring of Dutch development assistance was announced, with a strong concentration on three provinces, and decentralisation as the guiding principle. Nineteen (19) municipalities were selected as eligible for funding under the “Programa de Apoyo a los Gobiernos Municipales” (PAGM).¹⁴ Furthermore, assistance to programmes in El Alto (health and urban development) were discontinued, to be replaced by a new urban development programme in Santa Cruz.¹⁵

Evaluation of bilateral aid

The IOB evaluation of Dutch bilateral cooperation with Bolivia in the 1985-1995 period concluded that programme aid generally contributed to improving Bolivia’s macro-economic and social indicators, but that the effects on the economic situation of the poor sections of the population were limited.¹⁶ While project aid generally achieved its immediate objectives, it was less successful in reducing poverty in economic terms, but had a major impact on institutional strengthening and civil society capacity building.

The IOB concluded that almost all projects explicitly focused on the “poorest strata of the (rural) population” (1998:117), but that the effects on poverty reduction failed to meet expectations for the following reasons:

- a) the production base, with a low gross margin (or low volume) under high-risk climatic conditions, did not present opportunities to increase income from agricultural production;
- b) insufficient attention was paid to the core problems of rural development, such as the need for access to water and cultivable land;
- c) in a changing rural economy, the importance of agriculture in the survival strategy of the traditional campesino family was diminishing quickly. Most campesino families were investing their savings in activities outside agriculture.

The IOB also concluded that those projects aimed at research and agricultural innovation had been successful. The sustainability of Dutch aid was evaluated as limited. Bolivia had only limited institutional capacity for linking international aid to its own policies and priorities. The projects therefore reflected the policies and perspectives of their donors and lacked an institutional framework for consolidating and sustaining activities in the future. For example, in most of the agriculture projects, assessment of the post-project situation was inadequate, both institutionally and financially, and only in exceptional cases plans had been made for the transfer of activities, tasks and responsibilities.

In her reaction to the IOB Bolivia evaluation, the then minister of development co-operation, Herfkens, informed the Parliament on the future of Dutch development co-operation to Bolivia. In this letter it is announced that Dutch support will continue its support the 19 selected municipalities and focus on the micro level as well as on the meso- and national level. The main challenge for the future will be to implement a “more sector support approach”.¹⁷

national level. This calls for intensification of a project approach, with intensive supervision by policy and management staff.”

And “Though found positive in some cases (SIDFE), programme aid is not the most appropriate instrument for Dutch aid to Bolivia for the time being. The reason for this is the institutional weakness of central government. Some multilateral donors provide large amounts of programme aid, and despite close monitoring, the results are disappointing. What is more, sizeable World Bank and IDB loans mean that Dutch aid would not be useful in some sectors. Finally, corruption is rife in Bolivia, and programme aid provides too few opportunities to keep it in check. We propose applying programme aid in the education and energy sectors, but not in others.” (Annual Plan 1999:7)

¹⁴ : Annual Plan 1999

¹⁵ Annual Plan 1999

¹⁶ IOB (1998). Bolivia, evaluación del programa de cooperación desarrollo de los Países Bajos con Bolivia.

¹⁷ Ministerie van Buitenlandse Zaken, Brief van de Minister voor Ontwikkelingssamenwerking aan de Tweede Kamer van 9 maart 1999 betreffende Bolivia Evaluatie OS programma.

2.2 Sector choice

Sector selection in 1999

The Netherlands had been involved in providing assistance for Education Reform since 1994. It was argued that the conditions for implementing the sector-wide approach in this sector had been met since there was a single leading ministry with a well-defined national sector policy. The proposal to include education in the new sector priorities therefore did not provoke any discussion.

In decentralisation the situation was more complicated. Almost from the beginning of the decentralisation process in 1994, the Netherlands had provided strong support to the then Secretary of Popular Participation. However, after the change of government in 1997 serious problems had emerged in the use and administration of the Dutch budget support and there were contradictory signs regarding the political willingness of the new government to continue the decentralisation process. The conviction that strong donor support to decentralisation could help to maintain it on the political agenda was an important consideration in favour of its selection as one of the three sector priorities.

The preference for continuing to focus on productive rural development was motivated not only by the past widespread involvement in agricultural projects, but also by a positive assessment of the active role of the new Minister of Agriculture in promoting a coherent rural development policy.¹⁸ A major shift was that the programme would not focus on the small peasant producers (*campesinos*) in the highlands, but on market-oriented agricultural producers and manufacturers. A fourth sector – small and medium-sized enterprise development – was proposed as a contribution to economic development in Bolivia.

There was some debate as to the future of the substantial environmental programme. Environmental factors were safeguarded by being adopted as a cross-cutting theme within all sectors, whereas some environmental and water programmes were now included in the 'productive rural development' sector.

In 1999, when sectors were selected, only an Interim PRSP was available. Since it lacked clear priorities and was not worked out very well, it was not very helpful as a guiding document for sector choice. However, at a more general level, it could be claimed that sectors had been selected that matched national priorities. The selection was officially presented at a meeting at the Ministry of Finance to which all the ministries involved had been invited. The proposed fourth sector – support to small and medium-sized enterprise development – was removed at the request of the Ministry of Finance, since the Inter-American Development Bank (IDB) was preparing an all-embracing programme for this area. The outcome of this meeting was not formalised or reflected in a Memorandum of Understanding.

Sector selection in 2003

The 2003 policy document 'Mutual interests, mutual responsibilities' (AEV) indicated that in each country the number of sectors would have to be limited to two, or possibly three. In line with the new instructions, the embassy decided to re-label Good Governance from a "sector" into a "cross-cutting theme" and to continue to support the education sector as well as the rural productive sector. In practice, the focus in the rural productive sector had gradually shifted from 'productive development by small and medium-size enterprises' (1999) through 'rural production and transformation' (in response to the Bolivian Strategy for Productivity and Competitiveness -2001), later incorporating an environmental perspective (bio-commerce and watershed management), to 'private sector development' (2004).

¹⁸ Personal communication of the then Head of the Development Cooperation Section at the embassy in La Paz

In her letter of 16 April 2004, the Minister informed parliament about the new selection of sectors in all 30 partner countries. In Bolivia, only a single sector – education – was mentioned, leaving out the rural productive sector. In the 2005-2008 Medium-Term Plan the decision to restrict the assistance to the education sector was confirmed.¹⁹ The new multi-year planning also includes two thematic areas: good governance (including ‘corporate governance’ as component of private sector development) and water and environment. Rural productive activities are to be continued, now relabelled as the AEV priority “private sector development”. In recent reports, the Embassy holds on to the existence of two sectors: Education and Productive Development and two thematic areas: Good Governance and a ‘transversal’ cluster including environment.

2.3 Implementing the sector-wide approach

Preparing for implementation

From 1999 onwards intensive discussions and preparations took place with a view to designing and elaborating the aid strategy in the three selected sectors. As stated above, in the first years conditions were considered to be favourable for a relatively rapid implementation of the sector-wide approach. RNE welcomed the new approach as a way of putting a stop to the proliferation of projects and achieving a more structured and concentrated aid programme.

On 3 February 2000, development staff held an extraordinary meeting to discuss the implementation of the sector-wide approach. In an internal memorandum dated 14 August 2001 the implementation strategy was outlined as follows: in each sector in the next few years, the Netherlands would support two to three programmes with the government and one to two programmes with civil society.²⁰ In most cases, these activities were already in place.

The introduction of the sector-wide approach would entail efforts to build civil society, strengthen institutions and fight corruption, all of which would be deemed to be supra-sectoral. Cross-cutting themes would be dealt with within the sectors and direct funding of activities would only be required in exceptional cases. While the sector-wide approach was under preparation, the focus on poverty reduction was considered to be threatened; so a small fund, the Poverty Alleviation Fund was created, administrated by SNV and a Bolivian NGO and through which the embassy could channel resources directly to “the poorest in the country”.²¹

Education

The first phase of Education Reform had already been launched in 1994. It focused exclusively on primary education, with special attention for intercultural, bilingual education for indigenous people. The Netherlands, together with Sweden, provided financial assistance almost from the start, most of it through a co-financing agreement with the World Bank. The modality in which it was provided already displayed some of the same features as the sector-wide approach: joint programme aid was being provided for comprehensive sub-sectoral reform under the Ministry’s leadership. For this reason, the introduction of the sector-wide approach did not entail major changes to the strategy adopted up to then. The phasing out of a limited number of projects and programmes had already been scheduled and could be implemented without major problems.

From then on, the decision was to adopt a hands-off approach and to concentrate as much as possible on supporting implementation of Education Reform by the Ministry of Education.

¹⁹ RNE La Paz. Medium-Term Plan 2005-2008 ‘In short, the Netherlands support is limited to one sector, namely education, and two thematic themes: good governance (including economic governance) and water & environment.

²⁰ And if necessary one policy dialogue activity.

²¹ Memorandum to development staff from HOS LP of 14 August on “Situation of SBB in the Embassy”. This memorandum set out the implementation strategy for the medium to long term

Decision-making on the use of financial assistance was left to the Bolivian authorities, within the agreed Education Reform policy framework and on the basis of annual plans. From 1995, the embassy provided €6.8 million through the co-financing arrangement with the World Bank. From 2001 to 2004 it provided €19.4 million in direct assistance to the Ministry. In 2004, the Ministry presented a new medium-term operational plan for the second phase of Education Reform (2004-2008), now covering the entire education sector. The Netherlands was the first donor to confirm the Memorandum of Understanding committing itself to contributing \$US 75 millions to basket funding for the next five years.

In order to promote the participation of the indigenous population, the Education Councils of the Indigenous Peoples (an average of USD 0.4 million a year) and the Education Forum, a platform of NGOs and other civil society organisations engaged in the debate on education policy, were included in the sector programme. The existing programme for supporting higher agricultural education at three small universities in the southern part of the country was continued (USD 1.5 million a year, to be reduced to USD 0.8 million from 2005).

Progress in applying the sector-wide approach in the education sector has been hampered by political instability and the permanent opposition of the teachers' unions. Between August 2001 and the end of 2003 five successive vice-ministers for primary education came and went. After the installation of the new government of President Rodriguez and the change of government after the elections in december of 2005, new changes are expected. Nonetheless, Education Reform has established itself as a major public policy and has enjoyed overall continuity, surviving more than six changes of government.²²

Decentralisation

Under the Law of Popular Participation (1994), the Decentralized Administration Law and the Municipality Law (1995), all passed by Sanchez de Lozada's first government in 1994, administrative authority was partly decentralised to the municipal level, for which 311 municipalities were created, many of them from scratch. Twenty percent (20%) of national tax revenue would be transferred to the municipal governments on a per capita basis. The Law also introduced new participatory and accountability mechanisms as a means of improving public service delivery. Because of these features, the Law was widely considered to be an important effort to address the exclusion of rural and indigenous citizens and to promote a more equitable distribution of public funds among the regions.

In 1994, the Netherlands was the first and only donor to support implementation of the Law by direct budget support for the Technical Secretariat of Popular Participation forming part of the Ministry for Popular Participation.²³ Most of the funds were used to finance additional staff at central government level. With increasing politicisation and clientelism under the Banzer government, the embassy lost oversight of the effectiveness and efficiency of this support. In 1998, disbursements were even temporarily suspended and resumed on the condition that the resources would only be used for specific purposes. To that end, an annual plan had to be presented to the embassy for approval and the embassy decided to adopt a much more hands-on approach. What started as a very flexible aid modality became in practice earmarked project support.

When the programme wound up in 2000 no final evaluation was carried out²⁴. The embassy considered the results as disappointing. In the first two years, the budget support provided

²² Contreras, M. and Talavera, M. (2003). Bolivian Education Reform 1999-2002. Education, World Bank. Washington.

²³ The decision to provide budget support was taken by the then minister after his visit to Bolivia.

²⁴ The embassy did however take the initiative to undertake an impact assessment of capacity programmes; a study at the municipal level provided very interesting data and conclusions. Ministerio de la Presidencia /Viceministerio de Coordinación Gubernamental/Programa de Apoyo Presupuestario del Reino de los Países Bajos: Evaluaciones de las capacidades institucionales instaladas (2002).

could be regarded as strategic support for the implementation of the decentralisation process. Soon afterwards, however, it had become a highly non-transparent funding mechanism for contracting numerous consultants, hence contributing to more bureaucracy and largely ignoring the real target group, the municipalities.

Decentralisation was also supported through the *Good Governance Fund*. Launched in 1997 and administered by the embassy, its main objective was direct support for relatively small projects at regional and local government level. The Fund was phased out in the course of 2000. Other initiatives for direct support at regional and local level were abandoned or cancelled and a rather radical change of course was adopted with the decision to focus on the Vice President's decentralisation initiatives.

In 1999, Vice President Quiroga had presented a policy document with the objective of defining Bolivia's decentralisation policy in which he stressed the need to rationalise uncoordinated donor support for the decentralisation process. In close collaboration with the World Bank this initiative was further developed in a proposal for a Programmatic Structural Adjustment Credit for Decentralisation (PSAC). Along with economic reactivation, PSAC I sought to support the nation's poverty reduction policy. Following the consensus achieved within the National Dialogue process and the Bolivian Poverty Reduction Strategy, municipalities acquired a leading role in achieving poverty reduction objectives. Pro-poor policies were to be implemented at local level by improving education, health and infrastructure services. PSAC I also sought to eliminate the factors that had contributed to a deteriorating fiscal balance, in particular irresponsible fiscal management by local government. Spending efficiency was encouraged.

The embassy decided to actively participate in a group of donors that comprised the World Bank, the UK and Sweden. In its Approval Memorandum, it expressed its high expectations of the programme's potential and recommended that it be approved, given its importance not only for the continuity of the decentralisation process but also for poverty reduction (...)²⁵. The embassy contributed USD 10 million to a total budget of USD 80 million. The World Bank was closely involved in designing the programme, focusing on restoring fiscal discipline and improving the institutional and regulatory framework for decentralisation. The interest of bilateral donors in joining the PSAC was influenced by the much broader way in which decentralisation was interpreted. Accordingly, they proposed including a wide range of social issues in its objectives and benchmarks. After much negotiation among donors and between the government and donors about the design of the PSAC, the programme was finally launched in 2001.

Soon after the programme was approved, the conditions for implementation deteriorated and the proposed policy framework was confronted with increasing opposition from powerful political interests within government. Without political backing, implementation was seriously hampered. But also the weak design of the programme, its broad scope and the many issues and objectives identified made sound implementation a difficult task.

In consequence, it was hardly surprising that the comprehensive evaluation of the programme – undertaken at the initiative of the embassy – yielded negative conclusions as far as it concerned the results. The fiscal pressure to utilise PSAC's budget support to help limit the growing fiscal deficit in 2002 (election year) was one of the main reasons why only part of the disbursements had been used to achieve the programme's objectives. Given the country's rapidly deteriorating financial situation, funds had been designated to other priorities. The special unit created to implement the programme had not been assigned sufficient power to perform its tasks adequately and it lacked political support.

²⁵ BEMO 009908 November 2001

The World Bank's internal evaluation of PSAC could hardly have been more negative. Project ratings were as follows: outcome unsatisfactory; sustainability unlikely; institutional development impact negligible; Bank performance unsatisfactory; and borrower performance unsatisfactory. It concluded that the role PSAC I was to play in economic reactivation and in poverty reduction should have been reviewed both more critically and more realistically. The programme's ambitious goals had created difficulties for its administration. At central level alone, over 20 entities participated in project management, posing a burden on the institutional capacity of the Ministry of Finance and the Fiscal Decentralisation Unit (UDF).²⁶

When in 2003 the World Bank proposed launching a new PSAC II now for social sector development, the embassy, having learned from the experience with PSAC I, was one of its fiercest opponents and decided not to participate. Partly in response to the negative evaluation of PSAC, in its annual report for 2004, the embassy opted to reduce drastically support for decentralisation, maintaining only a small programme for providing direct assistance to municipalities through the Federación de Asociaciones de Municipios (FAM).

Rural productive sector

The embassy's strategy towards implementing the sector-wide approach entailed termination not only of all activities outside the sectors chosen (exit strategy), but also of all projects within the rural sector. This approach was justified by a critical evaluation of experiences with the existing programmes and projects, summarised as follows in an internal sector paper:

- a) very limited institutional sustainability;
- b) limited impact at macro level;
- c) very supply-driven²⁷.

In consequence, the embassy opted for an overhaul of its portfolio and for constructing an entirely new programme from scratch, in which there was no place for existing activities. In the rural productive sector, the embassy decided to support three sub-sector programmes: (i) the Bolivian System for Productivity and Competitiveness (SBPC), starting with support to a first productive chain for which a plan had been elaborated: quinoa (an Andes grain); (ii) the Bolivian System for Transfer of Technology (SIBTA), through basket funding with other donors; and (iii) provision of legal security through emission of land titles (Plan Tierra). At a later moment in time, projects with an environmental background entered the portfolio: (iv) Bio-commerce, through the Ministry of Sustainable Development, and (v) Integrated Watershed Management, in a clear response to the AEV's policy focus on water management.

Supra-sectoral and cross-cutting themes

The Governance programme is regarded a supra-sectoral theme and includes a wide range of programmes and activities, including assistance to the Office of the Ombudsman, the anti-corruption programme and efforts to strengthen the rule of law. By far the most important programme in this field was the Institutional Reform Project (PRI), a comprehensive public sector reform programme with a total budget of USD 72 million and a Dutch contribution of €10 million. Initiated and coordinated by the Vice President's Office, its aim was to improve the efficiency and effectiveness of public administration through the introduction of a uniform salary system and transparent merit-based recruitment procedures. The independent evaluation of the Institutional Reform Project (2005) concluded that 'overall, the project must count as a substantial disappointment vis-à-vis the initial high expectations it gave rise to'. Of the six major institutional reforms, the most effective appears to have been the National

²⁶ World Bank (2004). Implementation Completion Report (IDA-35070 TF-28328) on a credit to the amount of USD 60 million to the Republic of Bolivia for a Programmatic Structural Adjustment Credit for Decentralisation. June 28, 2004

²⁷ HMA La Paz. Sectorale Benadering Sectorkeuze juni 1999: 13 en Memo del TD/PLO al CdP ; ref LAP/PLO-1974/99.

Tax Service (SIN), and the National Roads Service (SNC), while the reform of the National Customs Service (ANB) remains the most fragile.²⁸ Implementation was seriously obstructed by a lack of political willingness to enforce its recommendations and attempts to protect the interests of the political parties participating in the coalition.

2.4 Changes to the Dutch co-operation portfolio: disbursements, exit and concentration

Table 1 shows the evolution in the composition of aid to Bolivia by sector in the four years prior to and after introduction of the sector-wide approach.

Table 1: Composition of Dutch development aid expenditure in Bolivia: disbursements between 1996-1999 and 2000-2003 compared

Sector (x1000€)	1996-1999		2000-2003	
Rural Productive Sector	34,5	38%	19,4	14%
Education Sector	7,4	8%	31	23%
Decentralisation Sector	10,5	12%	16	12%
Supra-sectoral: Good Governance	6,5	7%	10	7%
Cross-cutting : Gender	2,4	3%	3,4	3%
Cross-cutting: Environment	16,6	18%	10,3	8%
Others	8	9%	18,6	14%
Sub-total non macro aid	86,1	95%	108,7	81%
2000-2003 structural macro aid: PLANE and General Budget Support	4,5	5%	26,3	19%
Total	90,6		135	
Macro : 69-99 Debt Relief	43,7		6,8	
Total	134,3		141,8	

Sources: MIDAS, Piramide and IOB (2004), Results of International Debt Relief in Bolivia

The main changes in the composition of Dutch assistance were as follows:

- Total volume of non-macro aid increased from €86 to €108.7 million.
- Between 1996 and 1999 spending in the rural productive sector represented 38% of total (non macro-aid) disbursements. In the subsequent four years it declined sharply to 19.4%.
- The reverse trend can be seen in education: an increase from 8% from 1996 to 1999 to 23 % from 2000 to 2003.
- The drop in spending on the environment is the consequence of the decision not to continue the relatively large number of existing activities in this field and the fact that some environment projects were incorporated in the rural productive sector.

From 1996 to 1999, 61% of the non-macro aid was already concentrated in the three sectors selected and in 2004 it was 88%. However, the composition among the sector changed substantially.

The following table provides an overview of the evolution of the composition of Dutch aid to Bolivia over the past five years:

²⁸ Andrade, M. et al. (2005) Bolivia Institutional Reform Project, Independent Evaluation.

Sector/theme	2000	2001	2002	2003	2004	Total 2000-004
Rural productive	7,159	4,991	4,774	2,484	3,147	22,555
Education sector	4,393	6,195	11,244	9,216	10,971	42,019
Decentralisation and Popular Participation (including PSAC) ²⁹	1,227	7,25	4,007	3,537	2,858	18,879
Supra-sectoral: Good Governance (including PRI)	1,627	3,252	4,236	0,941	1,068	11,124
Cross-cutting: Gender	0,783	0,807	1,652	0,206	0,041	3,489
Cross-cutting: Environment	2,731	4,47	2,248	0,897	0,265	10,611
Water	0	0	0	0	1,005	1,005
Others and exit	6,544	7,883	2,080	2,045	0,362	18,914
General Budget Support and PLANE	0	8,854	4,600	10,000	8,800	32,254
Total	24,464	43,702	34,841	29,326	28,517	160.850

The table clearly shows that support for the education sector intensified through a constant increase in disbursements to 41 % of total spending, constituting almost 56% of spending on non-macro aid (2004). Since existing projects were significantly reduced and expenditure in the SIBTA technology transfer programme was less than expected, resources spent in the rural productive sector decreased from €7.1 million in 2000 to €3.1 million in 2004. In fact, the decrease was even sharper because some of the environment programmes were comprised in this sector. The decision to limit separate activities on gender and energy led to a significant reduction in the volume of financing in these areas. It is the embassy's aim not financing any specific activity in gender anymore, but to apply strictly 'mainstreaming' in this area.

The embassy's exit strategy was implemented decisively. Activities in sectors not chosen for the sector-wide approach were discontinued (in the health, urban and energy sectors). Also a significant number of activities within the three selected sectors were discontinued as were activities in the cross-cutting themes of gender and environment.

As a result, the Dutch co-operation programme with Bolivia shows a significant concentration of activities in the three selected sectors. The number of separate activities in the portfolio that added up to about 90 by the end of 1999, was reduced to about 30 at the beginning of 2004. It is the embassy's intention to further reduce that number to about 20 by the end of 2005.

2.5 Conclusions

Sectors were selected in accordance to a systematic process agreed upon with the Ministry of Foreign Affairs in The Hague. The process was well documented, and selection took place according to the pre-established criteria. Consultations were held with government, but neither the results nor the agreements were formalised.

With the reduction of sectors in 2003, the distinction between sectors and cross-cutting themes became rather blurred. The continuous changes in the status of activities in the rural productive and environment fields have prevented a clear insight into the long-term approach and prospects.

The introduction of the sector-wide approach marked a fairly radical change from the strategy pursued up to that moment in time. In the rural sector, existing projects were replaced by an entirely new approach and programme. With regard to decentralisation, the option of direct support to municipalities was abandoned in favour of supporting national policy for

²⁹ In the case of both PSAC and PRI, classification proceeded according to the sectoral criteria; according to the aid modality, however, both should be classified as structural macro aid.

decentralisation. Only in the education sector many elements of the sector-wide approach were in place already, so here prevailed continuity.

The exit strategy was completed in a relatively short period of time. By discontinuation of the portfolio of existing projects, a new programme could be constructed. This had some disadvantages as well, such as:

- a) forfeiting the opportunity to incorporate existing capacity, experience and organisational structures into the sector-wide approach;
- b) reducing the network of contacts in different layers of the public administration (ministries, departments) and within society.

The embassy succeeded in rapidly bringing about the desired changes, complying with the most important elements of the sector-wide approach and becoming a real frontrunner in implementing the approach in Bolivia. The embassy concentrated assistance at the central government level, adhering to the principle of only providing aid within the government's administrative and policy framework. By doing so it attempted to contribute to the objective of promoting government leadership and ownership of external assistance.

With respect to decentralisation, the embassy decided to abandon former initiatives entailing direct support for regional and local government in favour of assistance at central government level. The option implied supporting decentralisation policy rather than separate programmes or projects. The relative vigour with which this was undertaken posed a risk, especially when the governance situation and the institutional setting started to deteriorate. The failure of PSAC to achieve its objectives can be attributed to the absence of proper conditions for such an approach at central government level.

In the rural productive sector the radical change in strategy provoked a significant decline in disbursements. Institutional weaknesses prevented further progress being made in drafting a sector policy.

In education, the political crisis of 2002 and 2003 hindered progress towards a new phase of Education Reform, but in 2004 prospects for continuing had improved. Disbursements were only temporarily interrupted. Since Education Reform had broad political backing, continuity could largely be granted, creating better conditions for implementing the sector-wide approach.

3 TOWARDS LESS EARMARKED FUNDING

3.1 General overview

The Dutch policy on sector approach implies striving towards sector programme aid and where possible budget support, as the financial expressions of harmonising and aligning aid. As table 3 shows, considerable progress has been made in Bolivia in applying programme aid modalities. Seventy-one percent (65%) of total Dutch bilateral aid to Bolivia during the period 2000-2004 can be classified as such. General and sector budget support together account for 12.% and sector programme aid for 30% of total aid.

Act. No.	Activity	Total	
<i>Structural macro aid</i>			
General budget support		15.000	
Social Fund	DVF empleo emergencia (PLANE I)	13.454	
Social Fund	Support to PLANE II	1.800	
Co-financing	DVF Programme Reformat Institutional	7.377	
Co-financing	DVF PSAC/decentralisation	11.340	
<i>Total³⁰</i>		<i>48.971</i>	<i>35%</i>
<i>Sectoral programme aid</i>			
Sectoral budget support	LAP VPEPP/budget support SNPP	2.780	
Basket	Desarollo Rural Productivo	1.023	
Basket	POMA Education 2004-2008	9.000	
Basket	LAP SIBTA/5 year plan phase 1	1400	
Basket	LAP Sustainable BIO-trade 1	1115	
Basket	LAP National Land Reform Plan	2224	
Basket	LAP Competitiveness Programme	147	
Basket	LAP- Nat. Watershed Programme	1914	
Basket	EDU/Education Reform I	10.551	
Basket	LAP Education Reform II	7500	
Basket	LAP CEPOS Strategic Plan	1.158	
Basket	LAP MECYD/educational advisors	3.538	
Basket	LAP Ombudsman/basket support	677	
<i>Totaal</i>		<i>43.027</i>	<i>30%</i>
Total		94.633	65%
Sector aid with other modalities		50.763	35%
Total sector aid		144.896	
Source: Programmahulpbrieven 2000-2003, Piramide 2004			

³⁰ In the official reports on programme aid ('Programmahulpbrieven') PSAC is classified under structural macro aid, however, since this programme was specifically aiming at supporting the decentralisation strategy, in this study it has been classified under the decentralisation sector as sectoral programme aid.

3.2 Structural macro aid

Structural macro aid represented 35% of total Dutch aid in the 2000-2004 period, out of which general budget support (in 2003 Euro 10 million and 2004 Euro 5 million) accounted for 10.3 % of total aid. In 2004, the Bolivian government negotiated multi-donor budget support with the main objective of bridging the budget deficit of USD 89.5 million in order to comply with the IMF deficit target of 6.1% (of GDP). The participating multilateral and bilateral agencies drafted a Memorandum of Understanding, that provided the framework for budget support and the Policy Matrix. One of the results expected from the budget support was the preparation and discussion of a second generation PRSP and the preparation of a medium-term expenditure framework (MTEF), including a sustainable fiscal policy with more emphasis on pro-poor spending.³¹

In both cases, the embassy justified the provision of general budget support by referring to the economic emergency situation and to the improvements achieved in the area of public finance management and fiscal policy. The 2004 support was furthermore inspired by the fact that the Mesa Government undertook serious attempts to bring down the high budget deficit. The approval of general budget support in 2004 provoked some internal discussion in the Ministry, due to doubts about its relevance to poverty reduction. According to the criteria of the Ministry, budget support requires a clear link to the PRSP. However, Bolivia did not have any 'active' PRSP during the period 2003-2005. Another crucial requirement should be the extent to which pro-poor spending is ensured. Although the first PRSP Annual Progress Report did provide indications in terms of real expenditure, it has been impossible to determine which elements of the PRSP actually received priority in terms of budget spending³². Political changes imply a risk that new governments will not respect commitments made by their predecessors.³³

With respect to budget support, donors are still looking for the right balance between expressing confidence in government and the assessment of the fiduciary risk, between harmonising the conditionality and expressing the difference of focus between economic and monetary stability (IMF) and poverty reduction objectives. Although donors are aware of the remaining problems in public finance management, as showed by the County Financial Accountability Assessment (CFAA, 2004) and the relatively slow progress in making improvements in the various Action Plans (CPAR and CFAA Action Plans) at least the slow progress made was sufficient reason to approve new budget support.

The SIDA/ISS evaluation of the PRSP process (2004) points at the pressure of both international financial institutions and bilateral donors to disburse aid.³⁴ Beyond doubt that plays a role, but Bolivia is also an example where strict adherence to macroeconomic and financial stability has not automatically led to tangible results as far as it concerns poverty reduction. Internationally, there has been some debate whether or not harmonisation implies that bilateral donors should always strictly match the IMF conditionalities, or that it is IMF's role to emulate economic and financial stability and bilateral donor's role to focus on poverty reduction. Bilateral donors and regional development banks should obviously not undermine stability conditions, but their mission may require certain flexibility with respect to IMF

³¹ Memorandum of evaluation 9919, Macro-economic support to Bolivia 2004.

³² SIDA/ISS (2004) *Evaluation of Poverty Reduction Strategies in Latin America 2004. Bolivia: More of the same without 'pro poor growth'?* ISS, p. 10

³³ This was rightly observed in the Report of the Visit of the Bolivian Country Support Team, 20-27 March 2004.

³⁴ SIDA/ISS (2004) *Evaluation of Poverty Reduction Strategies in Latin America 2004. Bolivia: More of the same without 'pro poor growth'?* ISS

conditions (for example, in some countries the availability of grant funding exceed the IMF recommended ceilings on public spending).³⁵

The embassy's proposal to increase general budget support to €10 million a year for the 2005-2007 period was based on a positive assessment of the government's commitment to reducing both poverty and the fiscal deficit.³⁶ However, the Ministry of Foreign Affairs in The Hague decided to withhold 'as long as the government's commitment to poverty reduction is not made more explicit'.³⁷

Apart from the general budget support, €18 million in macro support was earmarked for the PLANE programme, a temporary employment programme launched in response to the immediate economic crisis of 2003. Since the PLANE programme is a public sector funded programme, the macro support was supplied as earmarked budget support. The macro support formed part of the so-called structural macro support (managed by the embassy for lasting support mechanism) and not from the incidental macro support mechanism (managed by the Ministry in The Hague) aimed for ad-hoc and once upon a time support. The embassy approved funding of the programme because of the need for a rapid response to the emergency arising from the economic crisis. In doing so the government could gain time for searching structural solutions.³⁸

Since support for the PRI and PSAC was channelled into a co-financing arrangement through the World Bank, the Ministry of Foreign Affairs classified it in both cases as structural macro aid.³⁹

3.3 Sectoral programme aid

Education

Till 2001 Dutch support for the education sector was channeled through a co-financing agreement with the World Bank and Sweden. With the adoption of the sector-wide approach, the international donor community found it vital to leave room to the Bolivian authorities to set their own priorities in deploying external aid, as well as to move towards aligning foreign aid to national policies and procedures. Since a more flexible approach was not possible within the co-financing framework, at the end of 2001 the decision was taken to terminate the existing agreement, and to channel funds directly to the Ministry of Education. This opened up the opportunity to the embassy to apply a more flexible approach in the sector support. Priorities determined by the Ministry of Education in the framework of the education reform strategy were further financially supported. Although the World Bank and Sweden, the other two main donors to Education Reform, did not follow suit, co-ordination and harmonisation remained intensive.

After 2001, the embassy's assistance to the education sector was classified as basket funding, since the modality through which it was provided complied with many of the relevant criteria. Formally, however, it was not a basket funding, since resources were not pooled (but financing was harmonised and co-ordinated). The embassy considered basket funding as an intermediate step towards sectoral budget support.

³⁵ Discussion between Director General DG Development of the European Commission, Mr Koos Richelle and the Development Committee of the World Bank and the International Monetary Fund, 2004. (<http://europa.eu.int/comm/dgs/development/richelle/speeches...>)

³⁶ Medium Term Plan 2005-2008 RNE La Paz Bolivia, January 2005

³⁷ Multi-year Strategic Plan Approval Memorandum and Annual Plan 2005.

³⁸ Memorandum of evaluation PLANE II, 12 June 2003

³⁹ The World Bank applies only two kind of contracts: one for general budget support: the PRSC and one for all other loans: the standard Project Loan Contract. The contract form is the same under the various financing lines. The contract form as applied by the World Bank is –strictly spoken- not macro aid

In June 2004, the Netherlands was the first donor to sign the Memorandum of Understanding and a new bilateral agreement pledging to support the new Plan for Education Reform with USD 75 million for the next five years. This new commitment was classified as sectoral budget support. It entails more than a doubling of the disbursements made in the past four years. In the first half of 2005, Sweden and Denmark have also signed the Memorandum of Understanding.

Decentralisation

Sectoral budget support was only provided to the Ministry of Popular Participation prior to the introduction of the sector-wide approach. However, as explained above, from 1998 onwards this modality was actually transformed into earmarked programme and at a certain moment even into project aid.

PSAC represented a potentially advanced form of harmonisation and alignment within the decentralisation sector: budget support, in exchange for which the government promised to carry out a clearly formulated decentralisation programme whose overall and short-term objectives were not related to the budget. A matrix of 11 issues was drafted specifying achievements expected and their successive time frames. The embassy, together with two other bilateral donors (the UK and Sweden), co-funded the programme together with the World Bank. The embassy contributed USD 10 million through co-financing.

Basket funding according to the World Bank

Basket funding is a valuable tool in coordinating the actions of donors in the field of decentralisation, but only if this is restricted to a limited number of participating agencies. Basket funding helps to attune the actions of various agencies to common goals. Nonetheless it is not a substitute for effective donor coordination of ongoing activities. Preparation times may also suffer due to the agreements required in the design phase of the operation. Also, there is a practical limit to the number of agencies and donors that can be included in a 'basket fund'. There was a significant trade off between creating a consensus among the participants and effectiveness in preparation.(WB 2004: PSAC)

The ISS-SAX evaluation concluded that PSAC was an innovative funding mechanism, however, that was too sophisticated and not appropriate given the existing conditions (see 2.3.).⁴⁰

In the *rural productive sector* basket funding was applied to the activities aimed at promoting technological transfer through SIBTA. The joint fund is called Fondo Común de Apoyo al SIBTA (FOCAS). FOCAS is a step forward in a process: it groups only five donors out of a broader consortium in support of SIBTA. There is no "single SIBTA system" but there are three different off-budget funding mechanisms. Since SIBTA is a public-private partnership arrangement that has created several foundations, the pool funds are administered by these foundations and are kept outside the administration by the public sector.

All other activities involving multiple actors use project-type funding. The embassy attempted to come to joint financing agreements with other donors in the area of the Bolivian System for Productivity and Competitiveness and Plan Tierra, but succeeded only with a joint fund for SIBTA.

3.4 Conclusions

With 65% of Dutch assistance to Bolivia provided as programme aid, a clear tendency towards less earmarking has set in. Most progress can be seen in the embassy's support for Education Reform. Dutch aid has been largely aligned with government policies, budgeting plan and implementation procedures. In the case of PSAC, the lending instrument was inadequate and did not produce the desired results. The negative conclusions of the

⁴⁰SAX/ ISS(2003). Evaluación del PSAC: apoyo a la descentralización. Informe Final Documento.

evaluation with regard to the design and application of this modality are largely the result of the absence of proper conditions for application.

The embassy has been very reluctant to finance separate activities for specific programmes. The preference was to work with and through central government. In the embassy's view, financing separate programmes would weaken government's ownership and would conflict with the objective of promoting ownership. However, in a context of permanent political and institutional crisis, channelling assistance through central government institutions has not been very effective. With the benefit of hindsight it may be wondered whether the embassy's choices were not too rigid. It would have been possible to create more room for diversifying modalities of intervention at different levels and with different counterparts. Only in the rural productive sector public-private foundations were established as implementing agencies. Although with (start up?) deficiencies, this was in line with the policy of promoting new partnerships with the private sector, as put forward in the policy document 'Mutual interests, mutual responsibilities'.

The Embassy justified general budget support referring to the emergency situations. These emergency situations were mainly the result of the weak political position of government that has to deal with an array of fundamental questions in society, including the existence and organisation of the state itself. In these circumstances, the relevance of general budget support for poverty reduction has been only indirect (avoidance of the collapse of the public finance system or maintaining political lee). It is questionable whether the conditions for future general budget support are in place in Bolivia. One of the crucial obstacles is that existing budgeting system and resource allocation does not clearly grant pro-poor spending. Another major obstacle is the incapacity of the government to develop a credible economic recovery and poverty reduction plan (Public Expenditure Review 2003). So far, general budget support provided in the past has not contributed to enhancing clear improvements in budget allocative management and budget operational efficiency.

Notwithstanding progress made in the public finance management and in particular in the transparency of internal control, the fiduciary risk is still rated rather high (CFAA, 2004). Considering these factors, it is difficult to understand how general budget support will effectively contribute to poverty reduction.

4 DONOR CO-ORDINATION AND PROGRESS TOWARDS HARMONISATION AND ALIGNMENT

4.1 International Development Assistance

Bolivia has experienced a large inflow of external assistance since 1985. From 1998 onwards, Bolivia has been in the frontline of new initiatives, such as HIPC, drafting of a PRSP and elaboration of a CDF. Donors have awarded Bolivia for this frontrunners' role with high levels of assistance. From 2001 onwards, deterioration of governance conditions and failure to comply with the requirement to draft a second generation PRSP did not stop donors from maintaining these high levels of assistance. However, the motivation has changed from 'awarding Bolivia' to 'responding to emergencies and continuous crises'.

Between 1998 and 2002, total external assistance amounted to USD 527 million, averaging approximately 9% of GDP. Top contributors were the multilateral agencies Interamerican Development Bank, World Bank and the Corporación Andina de Fomento (CAF). In 2002 bilateral assistance represented less than a third of total external aid.

Table 4 Disbursements by agency 1998-2002 in USD millions

Agency	Annual average disbursements 1998-2001	Disbursements 2002
World Bank	84.1	106.3
IDB	107.1	100
European Union	15.2	19.3
CAF	77.3	278.4
UNICEF	7.4	5.4
Others	24.9	18.9
Total Multilateral	316	528.3
Total Bilateral	256.7	255.7
USA	49.9	45.4
Japan	45.8	29.9
Germany	37.4	42.9
The Netherlands	38.5	38.4
Spain	18.5	14.4
Denmark	14.1	27.9
Sweden	14.1	10.4
Switzerland	8.7	7.2
United Kingdom	6.7	9.7
Canada	5.4	3.3
Others	17.7	26.2
Total	572.7	783.9

Dutch aid represented 6.7 % of total aid between 1998 and 2001 and only 4.8% in 2002. The Netherlands was the fourth biggest bilateral donor: its contribution accounted for around 15% of total bilateral aid and 13.5% of all grant funds.

4.2 Harmonisation at national level

Between 1998 and 2001, the relations between the Bolivian government and donors became more structured. The government presented its Relations Framework for External Assistance; government-donor working groups were formed to prepare the Consultative Group meetings and intensive consultations took place on the new PRSP. Political crisis and stagnation in externally assisted programmes affected negatively these relations, leading to a dip in 2003.

Despite the intensive process of donor coordination, the initiative to come to a CDF and the commitments entered into by the various donor agencies, the progress made towards harmonisation and alignment has been less than could have been expected from a country that during many years have been in frontline of new developments in development cooperation. Notwithstanding efforts of the Netherlands and some other donors, in several sectors cooperation is still fragmented and the government still spends its time and resources on a big number of separate programmes or large projects funded by international agencies.⁴¹

From 2004 onwards, the Mesa Government has been trying to provide new impulses into government-donor co-operation. Five co-ordinating working groups (tables), representing both the government and donors, were set up to work on common strategies on various topics, with the aim of eventually working towards more sector support. However, precise sector plans are lacking (ISS 2004:12). The need to resolve the fiscal deficit and respond to the many political emergencies left government with no time to invest in relations with donors or harmonisation-alignment issues.

The OECD-DAC survey (2004) on progress in harmonisation and alignment provides the following performance record on a number of harmonisation indicators.

Table 5 OECD-DAC Survey on Progress in Harmonisation and Alignment⁴²

Are donors streamlining conditionality?	Direct Budget Support: yes (from 2004) Health and Rural Development: no, but Education, Water and Transport: yes, but
How many donor missions in 2003?	270
Are diagnostic reviews being streamlined? Was this undertaken jointly?	CCFA: yes PER: yes IMF/ROSC No HIPC Tr: No UNDP Contact: Yes
Who is delegating cooperation? Agreements on delegating cooperation?	Yes: 6 out of 16 (38%) Yes, but: 3 out of 16 donors (19%) No, but: 1 out of 16 donors (6%) No: 6 out of 16 donors (38%) .
Transparency and Information Sharing	
Are donors providing 3-year indicative envelopes on expected aid flows?	47%: yes, 41%: yes, but, 12%: no
Are donors disclosing information on actual disbursements?	65%: yes, 29%: yes, but, 6%: no, but.
Which donors are sharing country analytic work?	Yes: 18% (3 out of 17) Yes, but: 41% (7 out of 17 donors) No: 41% (7 out of 17)
<i>Source: OECD-DAC Survey on Progress in Harmonisation and Alignment 2004, Bolivia Country Chapter</i>	

⁴¹ The CDF evaluation country report (2003:16) mentions a number of 850 in 2002. .

⁴² Results should be interpreted carefully. All donor answers are treated equally without taking into account their volume of assistance. It is not clear to which government/period of time answers refer.

Table 6: Alignment: OECD-DAC Survey on Progress in Harmonisation and Alignment

Indicator: Are PRSs in place and operational?	
Are donors aligning on countries' development strategies?	Qualified yes
Is it operational?	Yes
Is there an annual progress review of the PRS?	Yes
Indicator: Is budget support aligned?	
Are donors making multi-annual commitments?	Unqualified no
Are donors making timely commitments?	Unqualified yes
Are donors making timely disbursements?	Qualified yes
Indicator Use of country procurement systems? (procurement, disbursement, reporting, M and E, audit)	
Bolivia	21% (of portfolios)

Source: OECD-DAC Survey on Progress in Harmonisation and Alignment 2004, Bolivia Country Chapter

According to the survey, the sector-wide approach is still in its infancy stage in Bolivia. Donor harmonisation is as yet inconsistent and incomplete. Lack of confidence in the PRSP-process may hamper further efforts towards harmonisation (OECD DAC 2004:7).

There are a number of reasons why intensified coordination between donors and between the government and donors did not produce the expected results in terms of harmonisation and alignment.

- 1) The difficult institutional and political conditions that have prevailed during the last five years have produced a very uncertain situation for donors wishing to commit themselves long-term with government.
- 2) Bolivia lacks a widely accepted national development policy and strategy, while the PRSP has not been an effective instrument in inducing greater alignment between government and the donor community. Poor acquisition procedures and deficient internal auditing have restricted the donors' acceptance of national financial procedures.⁴³
- 3) Most of the sector support programmes opted for using procedures of the international financing institutions (World Bank, IDB). In fact, that implied that in most cases there was no need to donors to harmonise their procedures.
- 4) The lack of progress can also be attributed directly to internal problems and obstacles in the provision of external assistance. There is a lack of consensus between the various development agencies concerning conditionalities and aid modalities. Most agencies have not yet adapted their internal administrative procedures enabling them to join harmonisation efforts and to pool funding. Most progress has been registered on alignment around policies, but the willingness to acknowledge and accept these policy frameworks still varies among donors.
- 5) As table 5 indicates, lack of delegation of decision-making to local offices has been another major obstacle in reaching faster agreements on harmonisation. In 1999 the World Bank decided to conduct a pilot experiment and decentralise its operations to Bolivia, in order to ensure better support for local partners and their priorities. From then on, Bank staff engaged in an intensive participatory process with government counterparts and other donors. However, a proposal to decentralise authority to approve individual operations to the country office was rejected by the Board and operations were subsequently recentralised and the staff reduced.⁴⁴

⁴³ As shown by different analysis tools such as CPAR (1999) and CFAA (2004)). The external auditing, however is generally acknowledged. The CGR is the only Latin American Supreme Audit Institute that applies almost all INTOSAI procedures and counts with ISO-certification for internal organisation and openness to 'its clients'

⁴⁴ World Bank (2003) *CDF Evaluation. Bolivia Country Report* (17).

Other critical observations made in interviews and external reports refer to differences of opinion and tensions between multilateral agencies and bilateral agencies and among bilateral agencies themselves on the approach and assistance to be provided. In multilateral agencies complaints can be heard about the lack of technical capacity of some of the smaller bilateral donors.

Role of the Dutch embassy

In the perception of the embassy, only few like-minded donors are genuinely prepared to coordinate donor support and to harmonise procedures. In its view, the performance of the IDB and the World Bank in particular leaves much to be desired⁴⁵. Although the context is often far from favourable, the embassy has continued its efforts to promote the process of coordination and harmonisation. The Ministries that receive aid as well as bilateral and multilateral donors recognise the Netherlands for promoting the sector-wide approach decisively. The embassy is putting a great deal of effort into intensive consultations with other donors aimed at pooled funding and harmonised conditions. Embassy staff spends a lot of time meeting with other donors and government representatives to negotiate harmonisation and alignment.

Nonetheless, it is important to keep in mind that the Netherlands is a frontrunner in applying the sector-wide approach and that other donors are not moving at the same pace and insist on applying a more hands-on approach. This can partly be attributed to internal obstacles that prevent them from making faster progress with harmonisation and alignment. However some donors are reluctant to apply flexible aid modalities since they are convinced that Bolivia does not meet the conditions required for such an approach.

4.3. Harmonisation and alignment in the sectors

Table 7: Progress with harmonisation and alignment *

	Education	Rural Productive
Clear sector policy	Yes	Yes, but
Medium-term expenditure programme	Yes	No
Formalised process of donor coordination	Yes	Yes
Performance monitoring system	Yes, but	No
Progress towards harmonised systems	Yes, but	No

(*) Does not include information on the decentralisation sector
Sector: OECD-DAC Survey on Progress in Harmonisation and Alignment 2004, Bolivia Country Chapter

Education

In the period from 1999-2003, out of 11 agencies that are involved in the education sector, only a small group of core donors – the World Bank, Sweden and the Netherlands – collaborated with the Ministry of Education on a programmatic approach. Though the IDB also provides important programmatic support, it does not take part to the same degree in co-ordination efforts. Most of the other donors support Education Reform on a project by project base, increasingly in close co-ordination with the Ministry and other donors. The embassy actively participates at all co-ordination levels.

Despite differences of opinion with Sweden and the World Bank on specific issues concerning conditionality and aid modality, significant progress was made in harmonisation,

⁴⁵ RoyalNetherlands Embassy La Paz Bolivia (2005). *Medium Term Plan 2005-2008*:8

for example the application of a single monitoring and auditing system and a single format for financial reporting.

In March 2004, the Ministry of Education proposed a framework for the relationship with its donors which clearly establishes its preference for basket funding. This framework served as the basis for drafting a Memorandum of Understanding in which co-operation is regulated at a more operational level between the Ministry and the donors that are prepared to join the basket. As indicated in 3.3., in 2004 the Netherlands has been the only donor willing to support the Ministry of Education's new medium-term operational plan for the 2004-2008 period through basket funding. In 2005 the Netherlands was followed by Sweden and Denmark, while the World Bank opted for earmarked funding of the secondary education component, leaving open the possibility of joining the common budget support towards the end of 2007.

Decentralisation

Intensive coordination of assistance for the decentralisation sector took place with Sweden and DFID. Attempts to form a block of bilateral donors playing a complementary role in relation to the World Bank did not work in the case of PSAC, and was one of the reasons why the programme became so difficult to manage and administer. In the smaller basket funding agreements, applicable for instance to the FAM programme, harmonisation turned out to be much more successful.

Supra-sectoral themes

In the supra-sectoral themes, the embassy's basket funding for the Ombudsman office stands out as an example of donor harmonisation. After a year of debate on disbursement procedures seven bilateral donors and UNDP reached agreement on joint long-term support with common disbursement procedures.

The rural productive sector

Not all donors are convinced of the merits of the policies pursued by the Government of Bolivia with respect to SBPC and SIBTA. Some of them (for example the EU) accused government of turning its back to poverty reduction by shifting its attention from subsistence agriculture to commercial producers. Although progress was made in information sharing and avoidance of duplication, deeply rooted differences in donors' views stood in the way of further efforts towards co-ordination and harmonisation. Only among the consortium partners in support of SIBTA, and in particular among those donors that pooled funds (FOCAS), co-ordination efforts succeeded. Pool funding had been an initiative of the Dutch embassy. The pool funders harmonised their procedures, such as on information sharing, planning, monitoring and evaluation, financial and narrative reporting and auditing.

The embassy had made various attempts to achieve close co-ordination among donors in other areas of support as well, but with mixed results. In support of SBPC, special platforms were created for co-ordination with private sector organisations, as well as with several ministries. But as far as procedures were concerned, harmonisation had not yet been subject of much debate. For SBPC, the Netherlands has accepted that IDB regulations and procedures will be applied to all Dutch funds. Although this is a form of harmonisation, there is nothing new in it.

Little progress has been made in terms of alignment. Both SBPC and SIBTA operate largely according to the procedural guidelines of the IDB. Financial support is off budget and administered by special units, outside the public sector.

4.4. Assessment and conclusions

Progress in donor harmonisation remained limited due to:

- political crisis and instability;
- the lack of a widely accepted national development strategy and the loss of legitimacy of the PRSP;
- internal donor limitations to participate in pooled programmatic aid modalities;
- internal differences of opinion among donors on the extent to which the institutional and governance situation in Bolivia allowed for the provision of programmatic and budget support.

In this context, the Dutch embassy pioneered harmonisation and showed a great willingness to apply it. With this approach, the embassy hoped to persuade other donors to follow.

The Embassy has played an active role in promoting alignment at national as well at sector level. Where possible it has tried to align its assistance with national policy- and institutional frameworks. In education it has been a frontrunner in reducing and streamlining conditionalities and leaving as much as possible decision-making in hands of the Bolivian ministry.

Although the harmonisation efforts did not produce the expected results, progress has been registered. Donors do coordinate their development activities more and better than in the past. Duplication of efforts is avoided. Projects are placed in the context of wider policies whenever possible; the number of individual 'country strategies' elaborated by donors is gradually reducing, or at least linked to the PRSP; the number of projects exclusively managed by foreign technical assistance is reducing.

The influence of the Netherlands is limited and overall progress depends on the attitudes of the big actors like the World Bank and Inter-American Development Bank in the first place. It should also be taken into account that other bilateral donors made a more critical fiduciary risk assessment as far as it concerns the conditions and possibilities to align external assistance to national administrative regulation and procedures.

5. OWNERSHIP, INSTITUTIONAL STRENGTHENING AND EFFICIENCY

Introduction

According to the theory of the sector-wide approach, it was introduced to trigger the following changes in recipient governments:

- 1) ownership, with the recipient country's government controlling policy and budget allocation⁴⁶
- 2) greater government capacity to implement national and sector poverty reduction policies;
- 3) more efficient management of aid.

This chapter examines whether the desired changes have been achieved and, where possible, the extent to which implementation of the sector-wide approach has contributed to bringing them about. The latter appeared difficult to establish, and so it can only be dealt with superficially.

5.1 Ownership

Ownership in the Bolivian context

In Bolivia a number of obstacles impede achievement of the ownership objective of the sector-wide approach.⁴⁷

Firstly, Bolivia's reliance on external aid has seriously restricted government leadership and ownership, as can be deduced from the way in which development agencies apply conditionality. In economic and financial crises in particular, detailed conditions and targets imposed by the International Financing Institutions and other donors restrict the government's room to manoeuvre in key areas of socio-economic policy. In order to promote national ownership a clear shift from policy towards process conditionality would be necessary; however, in Bolivia this change has not put into practice.

A second obstacle is created by the political setting, with rapidly changing internal power relations, frequent changes of government and related to that, frequent changes of key officials and political authorities. This affects continuity in aid relations and makes it difficult to enter into long-term agreements. Most plans and strategies have not survived changes of government. Since institutions are fragile, ownership depends in too many cases on personalities and is not institutionally anchored. In such a context it is unclear whose ownership should be promoted.

Thirdly, Bolivia suffers from deeply-rooted economic, geographical and ethnic divisions, with political and economic power concentrated in national and regional elites. Distribution of income and access to social services are marked by strong inequalities. Recent uprisings and protests reflect widespread dissatisfaction at exclusion and poverty and seriously affect governments' legitimacy. Though Dutch sector-wide policy insists on the importance of civil society participation to promote country ownership that goes beyond government ownership, this is difficult to achieve, given growing polarisation and confrontation.

In Bolivia, the process towards ownership is not linear. Political instability has frequently altered prospects of progress, while the obstacles referred to above make rapid progress unlikely.

*Ownership as reflected in a long-term national development strategy: the PRSP (EBRP)*⁴⁸

⁴⁶ The policy document '*Mutual interests, mutual responsibilities*' (2003) recognises that the concept is difficult to implement unambiguously. Since ownership focuses mainly on the responsibilities of recipient countries, the concept of 'partnership', which has now come into use, reflects the current focus on achieving the right balance between commitment and responsibility on the part of all actors, including donors.

⁴⁷ A critical assessment of the ownership concept underpinning Dutch sector-wide policy is included in the chapter on policy reconstruction in the synthesis report on the overall evaluation.

A crucial condition for ownership is the existence of a long-term national development plan to guide the activities of both donors and governments. Dutch policy documents insist on the importance of linking sector support to a national poverty strategy which integrates poverty goals into the macro-economic framework. The drafting of a PRSP is seen as very helpful tool in achieving harmonisation and ownership. For this reason, Dutch embassies are encouraged to help in the drafting of PRSPs and to use them as guidelines for assistance.

The embassy in La Paz put this into practice by actively participating in the consultations on the EBRP and funding both the national dialogues and the parallel dialogues organised by civil society organisations. Later evaluations concluded that, for several reasons, the EBRP had not met its objective of facilitating the government's leadership over the development policy and external assistance.⁴⁹

a) In practice, the EBRP did not prove to be a medium-term rolling plan as initially envisaged. President Sanchez de Lozada rejected the original plan, and proposed a new one. His new proposal lasted only a few months before being put aside by the Mesa government. Within one year, two attempts were made by two different governments to outline a new strategy. In 2003, the first EBRP, which was still officially valid, was considered to be a dead document. In late 2004 the Mesa government initiated a dialogue process as a first step towards the drafting of a second generation PRSP.

b) The EBRP was only briefly accepted as a guidance to government action. It did not lead to much change in either the objectives or the type of aid provided, largely because donors had insufficient confidence in the management capacities of the public sector. The main reasons were that the EBRP had never served as an overarching policy to guide the elaboration of specific sector plans and has never been costed. In absence of a costing and sector plans that could be translated into a MTEF, there was insufficient relation to the government budget. So on the one hand, there was the EBRP as a kind of expression of good intentions and on the other side there was the budget process as an almost independent exercise.

c) Ownership was also weak because the EBRP process had been mainly donor-driven. The influence of bilateral and multilateral donors is evident both in the inputs into the strategy and in the process of creating it.⁵⁰ Both the strategy and the dialogues with civil society were mainly funded from external sources.

d) The lack of a clear link between the national dialogue and the creation of the EBRP reduced the influence of the main participants in the dialogue on the contents of the final document, preventing broader ownership within political parties and civil society.

A common criticism of the process outlined in the HIPC II Initiative is that a participatory process imposed from outside will not be taken seriously by a government that neither accepts nor believes in the advantage of participation.⁵¹ As the ISS study (2003) concludes, the principal motivation on the part of the government to revise the EBRP seemed to come from the need to have a poverty reduction strategy around which to organise negotiations

⁴⁸ When referred to in general, the English abbreviation PRSP will be used. The Spanish abbreviation, EBRP (Estrategia Boliviana para la Reducción de la Pobreza), will be used to refer to the Bolivian PRSP.

⁴⁹ The following section is largely based on two ISS studies of the Bolivian PRSP. *Evaluation and Monitoring of Poverty Reduction Strategies in Latin America, the Bolivian Poverty Reduction Strategy: Yet another Brilliant Idea?* SIDA, December 2003. And *Bolivia: More of the same without pro-poor growth* (2004).

⁵⁰ Guidelines for the elaboration of PRSPs had been prepared by the World Bank and laid down in its PRSP Handbook. In the definition of the macroeconomic context, the IMF played an important role, since the PRSP was a condition for obtaining a PRGF. In the meantime, the IMF provided only stand-by loans. Lobbying by the bilateral donors to include themes such as gender and corruption, technical assistance by the World Bank in poverty diagnosis, constant meetings with the government to discuss drafts of the strategy. ISS: (2003)11

⁵¹ IBID: 13.

with the international community and to meet the conditions for a PRGF agreement with the IMF.⁵²

From the onset, a PRSP was envisaged as a mid-term rolling planning exercise, as subcomponent of a broader national development policy, based on structural participatory processes and ‘translated’ into financing plans that could easily be integrated into medium-term expenditure frameworks. A PRSP, once elaborated was never meant to be static. The revision of the EBRP fits with the concept of periodic revision and dynamics. What does not match the original concept is that the government of Bolivia has not approached it as a rolling exercise, but as an entire overhaul. The need for this overhaul is based on the rather weak underpinning of the economic growth pursued in the first EBRP, with a heavy weight on public sector service delivery. The focus on the delivery of health and education services can be directly traced back to the donor community’s focus on the Millennium Development Goals. Government, however, was reluctant to pursue on that path, feared that it would not be able to sustain those services in absence of an economic growth as projected in the EBRP.

President Mesa has initiated a process to update and revise Bolivia’s EBRP with a clear focus on the productive sectors. A new national dialogue, with active civil society participation, was completed in 2005. Frequent minister changes and permanent political crisis has hampered planning and implementation capacity and till up now it is unclear exactly how the new dialogue, would translate into a new PRSP.

*Ownership as reflected in domestic expenditure*⁵³

Besides a national development strategy, another indicator is the financial commitment to poverty reduction priorities as expressed by budget allocations.

A major obstacle in analysing allocation of resources to PRSP priorities is that overall control of expenditure is weak. The process of drawing up, approving and executing the budget takes place in a weak institutional environment strongly influenced by lobbies.

Since the mid-1990s, many resources have been transferred to rural and remote regions to implement the decentralisation programme. In recent years, Bolivia has allocated more resources to the social sectors and made significant progress in achieving more equitable social expenditure. Basic social expenditure increased between 1995 and 2002 from 9.1% to 12.4% of GDP and from 27% to 33% of total public expenditure. In per capita terms, expenditure rose from approximately USD 80 in 1995 to USD 130 in 2003. Though social spending dropped one percentage point between 2002 and 2003, it still remained higher than in pre-PRSP years.

However, these trends do not only reflect priority for pro-poor spending of national resources, but also result from earmarking of external assistance for poverty reduction goals. Between 1999 and 2002, an average of 45% of social investment was funded by external resources, increasing to 63% in 2003. About half of Bolivia’s pro-poor expenditure is financed from donor grants and official loans.

Ownership according to other progress indicators

The OECD-DAC survey provides an overview of the progress indicators for ownership in Bolivia. They are reflected in the following table.

⁵² See footnote 46.

⁵³ Part of this section has been taken from the recently implemented Public Expenditure Management for Fiscally Sustainable, Equitable and Efficient Public Services, by the World Bank and the Inter-American Development Bank, World Bank, April 2004.

OECD-DAC ownership criteria and their application in Bolivia	
Indicator	Progress
Have country action plans on harmonisation been completed?	Qualified yes
Is there a formalised government-led dialogue process?	Work in progress
Capacity development in public financial management, budget execution and aid coordination	Qualified yes
Weaknesses identified and currently addressed?	
Level of donor support appropriate?	
<i>Source: OECD Survey on Progress in Harmonisation and Alignment 2004/Overview of the Survey and Bolivia Country Chapter 2004 (Draft Report)</i>	

The Survey identifies capacity shortfalls in the following areas: procurement, budget formulation, execution, reporting and review and aid coordination. One of the major obstacles to proceeding with new harmonisation and alignment initiatives is the absence of both a new PRSP and clear sector plans and goals.

Ownership in the sectors

The question to be answered in evaluating *ownership* in the sectors is as follows. Is sector policy government-led and to what extent has the Bolivian government assumed the responsibility for decision-making on the management of Dutch aid?

- *Ownership in education*

Several studies and evaluations suggest that in Education Reform a considerable degree of ownership has been achieved. Education Reform has increasingly become a national policy with a clear political commitment from successive governments

The Ministry has shown *leadership* over external finance by coming up with precise and tangible proposals for harmonising and aligning external assistance by using a basket fund for the second phase of the Education Reform. With the creation of the inter-institutional committee, a formalised government-donor dialogue has been launched.

Assessment of its *financial commitment* presents a mixed picture. Education is the largest component of public spending in Bolivia, amounting to just over 6% of GDP in 2002. Up to the end of 2001 the executed budget for Education Reform amounted to USD 210 million, of which only 31% was from domestic resources. The 26% increase in capital expenditure in the education sector (as a share of GDP) since 1999 comes from donor funding and HIPC resources. However, of the current expenditure (around USD 300 million a year) about 90% is earmarked for teachers' salaries. It is almost completely internally funded.

While it is difficult to attribute the change in ownership in the education sector to a specific donor, the following points are indicative in the case of Dutch aid.

- a) Of all donors, the Netherlands has been the most inclined to leave the design and implementation of the Education Reform to the Ministry. Assistance was provided within the Ministry's administrative and policy frameworks.
- b) The Netherlands has shown a long term commitment to supporting the Reform, accepting interruptions and political problems,
- c) The flexible financing conditions and modalities left ample room for the Ministry to define its own priorities and to respond to emergencies and changes in the context.

- *Ownership in decentralisation*

In the case of decentralisation, the development of ownership has been strongly affected by the rapid changes in the political context. The strong *ownership* initially shown by the government that launched Popular Participation in 1994, was absent in subsequent governments. After the change of government in 1997, the new leaders identified Popular Participation with their political opponents and were unwilling to continue and expand the decentralisation process.

The Vice President's efforts to launch a new strategy in the sector was enthusiastically welcomed by the embassy and the rest of the donor community, but had too little political backing from the government. The strategy adopted by the embassy and other donors of working closely with a small group of 'change agents' within the government did not produce the desired results. Decentralisation touches on numerous actors and interests and this group had too little political clout to re-allocate responsibilities among the three different levels of government. Quite often, policy proposals came from external consultants and the agencies that would eventually be responsible for implementing them had very little input. Dependence on external resources made the government accept conditions without either a plan or a real commitment to complying with them. In the case of PSAC, a number of conditions were formally complied with, but it was obvious that the government had little intention of putting the policies adopted into practice.

Reviewing the embassy's strategy on decentralisation, it is hard to show how its assistance contributed to greater ownership. The bulk of assistance was delivered to central government and because municipalities only benefited in a limited and indirect way, it is unlikely that ownership has been enhanced at local level.

- *Ownership in the rural productive sector*

In Bolivia there is no consensus about the role of the state in the agriculture sector. Nor is there consensus about the role of public-private partnerships and the extent to which public resources should be used to support them. SBPC was an initiative of the previous government, and it was initially supported by the World Bank. But after the political changes of 2003, it was unclear whether it could count on the new government's support. Donors were reluctant to fund a concept that did not have the new government's explicit political endorsement. In practice, the technical secretariat functions in isolation. On paper it belongs to the private sector, but in practice it is a government supported agency. Apart from the loan from IDB, the only funds SBPC has received were from the Netherlands, and these funds were earmarked for the quinoa production chain only.

SIBTA is the product of a reorientation of the role of the state in agricultural research and extension services or transfer of technology. It was initiated by the donor community (World Bank and IDB). After an extended formulation process, ownership was confined to a few enthusiastic civil servants within the Ministry who energetically pursued the basic principles. But the new system has not yet become part of the mainstream thinking within the Ministry of Agriculture, in particular not at decentralised levels.

Both SBPC and SIBTA have created new structures for implementing activities. However, these structures have not yet been internalised by the economic actors in Bolivia. Since these are public-private partnerships, they operate largely outside the public domain. From the viewpoint of the sector-wide approach that means that the embassy gives no direct support to the normative, planning, monitoring and control functions of either the Ministry of Economic Development or the Ministry of Agriculture, but to implementing agencies. In the case of the support to SIBTA, FOCAS funds the implementing agencies, which are still very small and depend entirely on donor funding. Embassy support for SBPC and SIBTA contributes little to developing and defining the role of the public sector (regulation of market

conditions, control functions, establishing an enabling environment) in market-oriented rural production and transformation.

5.2 Strengthening the recipient government's implementation capacity

The main question to be addressed in this section is whether there has been an increase in the recipient government's capacity to formulate and implement sector policy in the areas and sectors supported by the Netherlands.

Achievements in institutional reform at the national level through PRI

The embassy opted for co-financing the PRI as a means of institutional strengthening at national level. Available information leads to mixed but generally critical conclusions on the programme's achievements. PRI was evaluated in the first half of 2005, information. The main conclusions were as follows:

'The most important gains of the project appear to be in the three (custom, road and tax) Services. The secondary gains lie in the nascent process of civil-service reform. This helped cement the improvements in the three services, but it is not clear how much impact it had in the three ministries. Overall, the project must count as a substantial; disappointment vis-à-vis the initial high expectations it gave rise to. On the other hand, it is also important to see the gains of this project in a comparison with other public-sector-reform projects; overall, their rate of success seems to be low, especially in the area of civil-service reform. It is important to recognize where the gains have been in this project, to protect them, and, as far as possible, to build on them.'⁵⁴

Customs and tax reform has contributed to an increase in revenues. Results in these three areas were attributable not only to better administration but also to less corruption.

Slow implementation of the administrative systems (SAFCO and SIGMA) is a problem, particularly in the *Prefecturas* and municipalities. The same is true of the civil service. The legal framework is in place but implementation is slow.

The main criticism is that the PRI was limited to developing regulations and formal instruments, without paying proper attention to applying them or ensuring compliance. The PRI reorganisation studies were often of poor quality, so that performance contracts and strategic plans (ARIs and PERIs) became legalistic documents that only specified detailed administrative conditions. The main focus was on technical details and the political causes of the problem were not taken into account. It did not support effective central oversight capacities, financial controls or personnel management. Targets were not linked to budgets or personnel management. (Montes: viii).⁵⁵

Institutional strengthening in the education sector

Progress has been made with institutional and administrative capacity within Education Reform, as is confirmed by a number of studies and evaluations.⁵⁶ The same is true of human resource administration. Despite general political instability, the turnover rate among technical staff at the Ministry is low. The *Sistema de Medición de Calidad* (SIMECAL) that collects and disseminates statistical information on student learning is widely recognised as

⁵⁴ Andrade, M. et al. (2005) *Bolivia Institutional Reform Project, Independent Evaluation*

⁵⁵ The PRI was located in a 'parallel government' unit (Unidad técnica) and was staffed with consultants reporting to the Vice President, who has no executive power. While initially this might have been perceived as a clever choice by donors, to support modernisers, it contributed to fragment government, a completely free hand for consultants, political infighting for project resources and poor transparency. Only a small committee of donors was informed of project activities. As a result, this large project was appropriated by narrow political interests and traditional project dynamics (Montes 2003: 4).

⁵⁶ *Joint Evaluation of External Support to Basic Education in Developing Countries*. Country Study Report Bolivia. Sept 2003: 73

producing good results. Nonetheless, implementation and monitoring capacity, and vulnerability to new political interference continue to give rise to concern.⁵⁷ The embassy's more optimistic assessment is not shared by all donors.

To improve technical and administrative capacity and to strengthen institutions, the Ministry has made use of direct core support for Education Reform provided by the embassy and other core donors. In this sense, a direct link between the aforementioned results and Dutch support can be established.

Achievements in institutional strengthening in the decentralisation sector

Strengthening of the government department responsible for decentralisation (initially called *Secretaría Nacional de Participación Popular*) was undertaken under very unfavourable conditions. The department underwent a significant number of changes. Its position within the executive branch was adjusted repeatedly, affecting its relative importance. There were also numerous changes to its leadership. Lack of commitment on the part of government resulted in it becoming totally dependent on external support. In the absence of proper conditions, the Dutch institutional support programme for this sector (PAP-Holanda and support to the *Secretaría Nacional* in 2002 and 2003) did not produce the expected results. Despite the considerable volumes of external assistance received in the past, the present Ministry demonstrates significant institutional capacity weakness, while institutional improvements introduced earlier has lacked continuity.

Central government programmes have done little to strengthen institutional capacity at municipal level. Notwithstanding series of internationally and nationally funded programmes and projects, there have been no systematic efforts to develop municipal government capacity. The various capacity building programmes had had little sustained impact.⁵⁸ Despite the Institutional Reform Agreements entered into with 313 municipalities, it is not clear how much impact it had on the improvement of the institutional capacity.

Several evaluations reach negative conclusions on the impact of the numerous capacity building programmes implemented in the context of decentralisation. A recent DFID publication observes that "Decentralisation support programmes have been implemented by nearly any donor active in Bolivia, but have all failed to achieve the envisaged results, despite an estimated total investment of USD 230 million over the first ten years"⁵⁹.

5.3 More efficient management and sustainability of aid

The sector-wide approach and the efficiency of external aid

As reported in chapter 4, most of the embassy's larger programmes have been aligned to central government policy, as well as to its institutional framework. Procedural alignment was aimed at, but not always achieved. In the case of co-financing with the World Bank programmes, the programmes were harmonised with other donors both as far as it concerned policies and procedures. In this sense, the embassy helped to make management of aid and expenditure more flexible and efficient. This is evidenced by the fact that

⁵⁷ Despite the progress reported, the World Bank's analysis is more critical:

'MOE suffers from poor operational capability and limited capacity to promote new education policies, and finds itself besieged on one side by the financial crisis which imposes caps on expenditures, and on the other by social demands for more spending, including salary increases, all while facing large and mounting educational challenges.' (PSSAC 2004: 18).

⁵⁸ As was confirmed in an evaluation study funded by : Ministerio de la Presidencia Viceministerio de Coordinación Gubernamental/Programa de Apoyo Presupuestario del Reino de los Países Bajos (PAP-Holanda) (2002). Evaluación de las Capacidades Institucionales y de Gestión de las Acciones de Fortalecimiento en Prefecturas y Municipios, incluyendo el análisis Sectorial Económico y Social" de Competencias" La Paz (tres tomos).

PAP Holanda

⁵⁹ DFID, Latin American Department. *Supporting more accountable and responsive sub-national governance for improved poverty reduction in Bolivia*.

disbursements of Dutch resources proceeded faster than planned even in times of political instability.

The modality of co-financing with the World Bank (applied in the cases of PRI and PSAC and the first stage of Education Reform) in which participated the Netherlands together with several other donors saved the Ministries time and effort in negotiating and administering the programme. However, the detailed conditions required by the World Bank for spending-eligibility and acquisitions produced significant additional costs for the government. More efficiency in aid management can also be observed in the case of basket fund modalities applied to environmental activities and good governance issues. The basket fund for the Ombudsman is the most positive example of obtaining efficiency in external assistance.

The sustainability of external assistance under the sector-wide approach

The introduction of the sector-wide approach has not changed or reduced the dependency on external financing. Bolivia's increasing budget deficits have mainly been covered by grants and increased domestic indebtedness. Roughly two-thirds of the overall budget deficit in the 1998-2002 period (about 7% of GDP on average) was financed from either concessional loans or grants. Since 1997, total public expenditure in real terms has increased by over 5% annually on average, while revenues increased by only 0.8% during the same period. Closing the budget deficit is pursued by restrictions in government spending (2004, 2005). During some years, government argued that the budget deficit should be perceived as temporary only and was of a liquidity character. The combination of economic growth and increased revenue generation from export of natural gas would close this deficit.

At national level, the size of the government has now exceeded the economy's capacity to support it as a result of the lack of economic growth. In the review of the performance of its Country Assistance Strategy (CAS), the World Bank concluded that neither government nor donors have adequately calculated the costs of simultaneously implementing all the reforms adopted in Bolivia. In the absence of the expected rates of economic growth, the costs of the reforms have become an unsustainable burden on the Treasury. At the start of the reforms it was expected that the additional recurrent costs (salary costs mainly) could easily be covered by increased revenues generated by economic growth and improved taxation. While the taxation system did improve, economic growth did not.

Sustainability is also a problem in most of the programmes supported by the Netherlands. Based on a scenario analysis, Requena (2004:14) concludes that in the next five years, the Institutional Reform Programme will not be financially sustainable from national resources.⁶⁰ At sector level, the problem of sustainability is especially urgent in the education sector. Most studies indicate that investment in education has a high cost-benefit ratio in the long term, but investments made in the Education Reform still largely depend on external funding. The Government of Bolivia does pay most of the recurrent costs. As early as 1999, it was estimated that for every dollar invested in education, 25 cents will be needed for operation and maintenance. Another cause for concern is the sustainability of teacher remuneration. In the recent past, increases in remuneration have been partly paid for with resources from the embassy's core-funding. Now that the embassy is the largest donor to the Education Reform, sustainability of its support will become a major issue in future monitoring.

The wish to contribute to sustainable fiscal stability was an important reason for the embassy to provide general budget support.⁶¹ General budget support in a situation of weak fiscal discipline and continuous financing needs (mainly domestic borrowing, but also non-concessional loans by the Corporación Andina de Fomento) may bring short-term political

⁶⁰ Requena (2004). *Cooperación internacional. Recursos de la Cooperación internacional 2003-2006*

⁶¹ Appraisal Document on Macro-economic Support III 2004: 14

gains – i.e. appease of political unrest – but it will not contribute to any sustainable improvement in the medium or long term. Budget support should be provided only if the primary deficit is very low or zero (otherwise the support finances the interest payments on loans). Notwithstanding the front loading under HIPC II, Bolivia's total public and publicly guaranteed debt stock has increased since 1999 from USD 4.5 to USD 7.2 billion. The external debt component thereof has increased from USD 3.8 to USD 5.0 billion. Domestic debt has increased as well. The Net Present Value of public debt was almost 55 percent of GDP in 2004, which can be considered as unsustainable, though depending on future gas revenues future assessment might change. Bolivia has been included in the new G-8 Debt Initiative through which most of its IDA and IMF debt (in total \$US 2.050 millions up to end 2004) is expected to be cancelled. Since the bulk of Bolivia's debt service obligations are with other creditors (mainly the IDB and the CAF), it is estimated that the G-8 initiative will reduce debt service payments from around \$US 270 millions to \$US 230 millions yearly.⁶²

5.4 Conclusions

In Bolivia, ownership and government leadership depend on the removal of a number of internal obstacles outside the reach of donors. At the best, external assistance can help to create more appropriate conditions for national ownership over development policies and funding.

Ownership requires a minimum of leadership, political commitment, as well as policy formulation and implementation capacity. Where in the education sector, at least some of these requisites were fulfilled, in the case of decentralisation, most of them were lacking.

The PRSP has not been an enabling tool to government to assume leadership over external assistance. Neither the National Dialogue 2000, nor the PRSP managed to underpin a shared vision on development and / or poverty reduction. Aid dependency, donors' approach to conditionalities, as well as political instability are other factors explaining why in Bolivia's ownership has remained illusory mainly.

The embassy has been consistent in its approach to promoting government ownership over its assistance and it has been a frontrunner in harmonisation. There is a demonstrable link between the Dutch sector-wide approach and progress towards ownership in the education sector. However, since basic conditions for the sector-wide approach were lacking in other areas, little progress has been made.

Results for institutional strengthening are mixed in the education sector and limited in the decentralisation sector. Impact at the municipal level has been very limited. The option of supporting the PRI has led to some progress in a few specific areas only. Overall results are lagging far behind expectations

⁶² Very preliminary data from Los Tiempos Bolivia 15 de junio 2005.

6. EXTERNAL ASSISTANCE, THE SECTOR-WIDE APPROACH AND POVERTY

Introduction

Sustainable poverty reduction is the key objective of Dutch development policy. The sector-wide approach was supposed to establish the conditions needed to achieve poverty reduction more effectively and efficiently.

To evaluate the effects of the sector-wide approach on poverty reduction would require a comparison of a situation with and without the sector-wide approach. In practice, that would be difficult, if not impossible. This study strives for gaining an insight into the consequences of the sector-wide approach for the poverty focus of Dutch development aid.⁶³

A short overview of achievements at national level in the field of poverty reduction is presented below. It focuses on a limited number of issues of importance in assessing the embassy's role in relation to this theme. Some comments will then be made on the embassy's contributions at sector level.

6.1 Poverty reduction and external assistance

After nearly 20 years of international cooperation, social indicators have improved and there are signs that the poor have obtained better access to basic services and that there is less inequality in the allocation of government funds. However, despite more pro-poor expenditure in the social sectors, the equity gap is still wide.

The major problem remains inability to impact on the poor. Between 1999 and 2002, monetary poverty increased by 2.75%. Almost two-thirds of Bolivian families live below the poverty line of USD 2 per day. Officially 11% of the population is unemployed, 22% is underemployed and an estimated 50% of the workers are active in the informal sector. Poverty outcomes have been very uneven, with significant differences between rural/urban, highland/lowland, and, indigenous/non indigenous groups. So, despite economic growth during the 1990s, increased expenditure in the social sectors, supported by high volumes of external assistance, poverty reduction was remained below expectation. In perceived poverty by the group of 'extreme poor' even increased, as a result of a widening gap between the 'well to do' and 'poor' in society.

Looking back on the last two decades of its involvement in Bolivia, the World Bank seems to recognise the loss of legitimacy of the development approach pursued:

*"The lack of significant progress in poverty reduction, the low level of private domestic investment (less than one percent of GDP in 2002), the stagnation of exports over the last 20 years (although the composition has changed), and continued high levels of informality have led to increasing questioning of the ability of the "economic model" to deliver goods"*⁶⁴

Popular organisations and NGOs claim that this poor performance can be attributed to the failure of focussing on the structural causes of poverty, such as inequality and political structures of exclusion.

A recent poverty assessment study concluded that in order to achieve the Millennium Development Goals, the Bolivian Economy would have to grow at a rate of 6.5% per capita

⁶³ A more detailed explanation of the methodology of the study is included in the annex of the final evaluation report. The main focus of this study was on policy implementation and less on effectiveness or impact. Under increasing pressure from public opinion and parliament to get more insight into the results of Dutch aid in terms of poverty reduction, IOB is considering executing impact studies at population level, preferably on the basis of this policy evaluation.

⁶⁴ World Bank Report and Recommendation (...) on a CAS for the Republic of Bolivia. January 8, 2004:2.

per year for the next 13 years. This would imply doubling per capita incomes.⁶⁵ Neither the government nor the international community has any clear vision on how Bolivia will be able to reduce monetary poverty or to achieve the Millennium Development Goals (ISS/SIDA 2004:15). Massive external assistance may boost progress in service delivery to the poor strata of the population, but so far, it has been weak in identifying and boosting profitable economic activity, expressed by productive employment creation. In absence of employment, monetary poverty will be persistent and hard to eliminate.

In response to these disappointing results, there is a growing awareness that it is not enough to focus on economic growth and social investments. What is also needed is a more specific strategy for investing in the economy of the poor.⁶⁶ This was reflected in the 2004 national dialogue which was specifically dedicated to improving productivity.

6.2 The sector-wide approach and poverty reduction

Poverty reduction and macro aid

Both the sector-wide approach and the policy document 'Mutual interests, mutual responsibilities' express a clear preference for macro aid, on condition that the recipient government has made a clear political commitment to reducing poverty. Bolivia received budget support in 2003 and 2004 in the absence of a clear poverty reduction strategy. In previous years, it had not been possible to determine which elements of the EBRP were to receive priority in terms of budget allocation.⁶⁷ In general, the Bolivian budgeting and expenditure process makes it very hard to track spending on poverty. In 2003, the conditions for strengthening poverty reduction that accompanied budget support were not effective, because the government had to resign soon after. Although poverty reduction conditions were included in the 2004 policy matrix for multi-annual budget support, the government could not meet them all, largely due to political unrest and the many other urgent matters it had to address. In fact, rather than focusing on poverty reduction, general budget support in both 2003 and 2004 was motivated by the need to resolve the fiscal deficit problem and to help the government survive politically.

Macro support for the PRI was justified by the need both to create better conditions at macro level for poverty reduction and to increase the government's ability to reduce poverty. Relevance for poverty reduction was indirect and from a long-term perspective. Since results lagged behind expectations, the relevance for poverty reduction is even more difficult to explain. In the case of the embassy's support for PLANE, the temporary employment project, it should be noted that this was aimed directly at the poorest of the poor, especially women.

Education sector

Through its support for Education Reform, the embassy contributed to significant improvements in providing access to primary education and to creating better conditions for achieving improvements in the quality of education.⁶⁸

This assistance was relevant to poverty reduction since the reforms focused on promoting equity in the distribution of resources and services and, more specifically, prioritised gender and indigenous people. Inequalities between men and women have been reduced and extra resources have been invested in education for ethnic groups. Nonetheless, there is not

⁶⁵ SIDA/ISS: 15

⁶⁶ Several NGOs in Bolivia with a long tradition of working in rural areas have advocated such an approach. See also the chapter in the SIDA/ISS study dedicated to this theme.

⁶⁷ SIDA/ISS (2004): 10

⁶⁸ Evidence can be found in the national education statistics and evaluation studies such as the *Joint Evaluation on Basic Education* (IOB: 2004). However most of the evidence refers to access and coverage, and there is a big gap in the availability of impact evidence: information on the quality of education and effects at the level of the schools and students. This also holds true for the effects of bilingual education.

enough evidence to claim that the Education Reform effectively contributed to poverty reduction.

Expenditure on basic education has largely been pro-poor and the poorest Bolivian students have benefited. This is in sharp contrast to the relatively high public expenditure on university education, which reinforces socio-economic inequities by mainly benefiting students from middle and high-income families, who represent the majority of university students. The Bolivian government still has ample margin to improve pro-poor spending in the education sector as a whole.

Although neither a specific poverty analysis nor an ISOA was carried out, the embassy has paid a lot of attention to equity issues by promoting gender issues and by supporting the participation of organisations of indigenous people's in Education Reform.

Decentralisation

Dutch support to decentralisation was motivated by high expectations of its relevance to poverty reduction and empowerment of the poor. More than decentralisation in any other country in Latin America, Bolivia's Popular Participation has put emphasis on organising civil society to participate in allocation decisions and control functions at local level (Comites de Vigilancia). In this sense, it has a high potential for expanding democratisation and poverty reduction. As the Bolivian case demonstrates, these effects are neither immediate nor automatic.

There is no doubt that decentralisation has resulted in a significant increase in expenditure at local level and that an important share of the resources channelled to the municipalities are distributed taking poverty as the criterion. Many factors, among them the limited capacity of local governments, resulted in sub-optimal quality of expenditure. The increase in municipal investment has resulted in better infrastructure for basic services. This has not always been translated into better access, however. Without specific studies, little can be said about public perception of improvements and their effect on services or about the impact these resources have had on poverty reduction.

Productive sectors

As little progress in programme implementation had been registered up to 2004, only a few general remarks can be made on the poverty focus in this sector. SIBTA is focusing on the needs for technology transfer of small and medium-size producers. In the case of the contracting of technology transfer services by the regional foundations, so far, the producers that have benefited most have been those in income brackets above USD 800 per capita per year. It were these farmers that had access to information and were able to produce the right kind of proposal. In the case of the support to productivity chains of the SBPC, the support to the quinoa production chain focuses directly on poor farmers and small manufacturing industry.

The SIDA/ISS study (2004:14) questions the potential of the productive chains to solve the problems envisaged by the agricultural sector. To a certain extent there is a conflict of interest between the support to product chains for export and support to activities in which the poorest small farmers are involved. The SIDA/ISS study stated that the current power balance between those at the bottom of the chain and those at the top prevents the poorest from benefiting. This view is too pessimistic, since the mission's own analysis of support contracts in the southern Highlands revealed that some meaningful linkages of mutual benefit have been developed in practice, but still at a small scale⁶⁹.

⁶⁹ Breeding and hand-feeding of heifers by poor farmers. A local association sells the animals to middle-sized dairy farmers. The small producers sell their milk to nearby large commercial farmers. These commercial farmers produce for the dairy industry

The land title registration programme, which was supported by the embassy, has produced tangible results. Since its introduction a total of 6,000 deeds of ownership have been transferred to poor peasant families, 3,800 of them with direct Dutch funding.⁷⁰

6.3. Conclusions

Prior to the introduction of the sector-wide approach, the embassy's interventions focused directly on poor regions and poor people. Now, the strategy is to support central government policies and poverty reduction efforts. So the embassy's involvement with poverty reduction is now largely dependent on the ability and capability of government to design pro-poor policies, to translate these policies into financiable activities and to organise the implementation of these activities. With the introduction of the sector-wide approach, poverty reduction has become a more indirect and long-term objective for Dutch aid. After all, the new strategy aims to enhance national capacity for poverty reduction instead of carrying out projects and programmes directly targeted at poor strata of the population.

As mentioned above, several obstacles stand in the way of the government being the effective 'change agent' behind poverty reduction. Political instability and institutional weakness, lack of a clear, long-term development strategy and lack of transparency in the budget process are the most important ones. Serious inequalities can only be overcome by specific measures such as preferential treatment for the poor in the allocation of resources and in access to services. Since 2002, the governance and institutional situation has deteriorated rather than improved. Channelling Dutch support through central government institutions has produced rather disappointing results from the perspective of poverty reduction thus far. However, there have been positive results in education and the embassy can claim to have provided strategically important support to the Ombudsman as can be demonstrated by its role in the recent conflicts and in defending the rights of poor people.

A clear analysis of how to address poverty in a setting of high inequality and exclusion calls for specific expertise and strategies. Thus far, the embassy has failed to develop in its assistance strategy a more systematic, explicit strategy for tackling poverty in the specific context of Bolivia.

It is important to see these conclusions in the context of the general crisis regarding external aid in Bolivia. Despite the huge volumes of external assistance, results in terms of poverty reduction have been disappointing. In view of the dominant role of international financing institutions and donors in the design and funding of national development policies, the criticism about the lack of results and impact can also be extended to Bolivia's donors. A critical review of the recommendations and conditions by the international co-operation is called for. Given that the Netherlands is an active member of the donor community, it should be part of that assessment.

⁷⁰ Source: Embassy's Annual Report 2004.

7 CONCLUSIONS

How and to what degree has the sector-wide approach been applied to Dutch co-operation policy in Bolivia?

The sector-wide approach was introduced in a relatively short period of time. The main achievements were:

- a) The exit strategy was completed in less than four years.
- b) Over 70% of the budget was concentrated in the selected sectors.
- c) The portfolio of projects, totalling some 90 projects at the end of 1999, was reduced to about 30 at the beginning of 2004.
- d) Since more than 70% of Dutch assistance to Bolivia has been provided as programme aid, a clear tendency towards less earmarked aid has set in.

The introduction of the sector-wide approach was a radical departure from the strategy pursued until then. In the rural sector, existing projects were replaced by an entirely new strategy and programme. In decentralisation, direct support to municipalities was abandoned in favour of support for national decentralisation policy. Only in education were important elements of the sector-wide approach already in place and transition was characterised by continuity.

While discontinuing the portfolio of existing projects made room for the implementation of a new programme, it also led to some disadvantages such as:

- Existing capacities, experiences and organisational structures were not incorporated into the sector-wide approach;
 - A smaller network of contacts in different layers of the public sector and within civil society.
- With the rather radical changes in the rural productive sector in particular, and the decision not to work at local and intermediate levels in the decentralisation sectors, valuable experiences and networks, which could well have served as a basis for a more diversified strategy, were no longer used and were lost.

Moreover, the way the sector-wide approach was implemented led to fewer opportunities to introduce innovations or to try out new concepts by pilot projects that could generate proposals for a broader (sector-) policy.

From the beginning, the embassy focused on the central government level. By doing so, it attempted to contribute to the objectives of promoting government ownership over policies and stewardship over external assistance.

In the embassy's view, funding parallel or separate programmes would undermine government leadership and conflict with the objective of promoting ownership. However, in the Bolivian context of permanent political and institutional crisis, channelling resources through central government institutions only, was not effective in many cases. Looking backwards, it may be wondered why the embassy did not diversify its interventions at different levels or with different counterparts, paying more attention to linking the micro with the meso and macro levels.

In line with Dutch policy and international agreements, the embassy made considerable efforts to promote harmonisation at both national and sector level. However, progress with donor harmonisation was limited due to:

- a) the long political crisis and persistent instability;
- b) the lack of a widely accepted national development strategy and the loss of legitimacy of the PRSP;
- c) internal problems for donors in participating in pooled programmatic aid modalities;

internal differences of opinion among donors in assessing the extent to which the institutional and governance situation allowed for the provision of programmatic and budget support.

These obstacles notwithstanding, progress has been made towards harmonisation, partly thanks to Dutch efforts in specific cases, such as the education sector, most of the decentralisation and good governance programmes and several basket funds for environment programmes.

To what extent has the introduction of the sector approach resulted in the desired changes in the recipient country, promoting ownership, strengthening the recipient's implementation capacity and making the management of aid more efficient?

The expectation that the PRSP would enable government to assume ownership over external aid was not met and possibly not realistic. Neither the National Dialogue 2000 nor the PRSP have been able to underpin a shared vision for development and poverty reduction. Aid dependency, donors' conditionalities and political instability are other factors explaining why little progress has been made towards building national ownership.

Ownership requires a minimum of leadership, political commitment, long-term development policy and implementation capacity. Some of these conditions were met in the education sector, but in the decentralisation and the rural productive sectors, most of them were lacking.

It is difficult to show that there is wider ownership at national level thanks to the changes in the nature of Dutch co-operation. However, in the case of education and some basket funds, application of the sector-wide approach contributed to establishing more favourable conditions for the government to assume greater leadership and ownership of external financing.

Results for institutional strengthening are mixed in the education sector and limited in the decentralisation sector. The option of supporting the PRI has led to some progress in a few specific areas, however, overall results are lagging far behind expectations. In the productive sector, the support opened up new ways for public private partnerships. Although the results up to 2004 were doubtful, the institutional strengthening has taken the shape of the recognition of overlaps and complementarities in the domains of the both the public and the private sector.

After twenty years of macro-economic stabilisation, structural reform and high levels of external assistance, only the macro-economic stability has been sustained over time. The sustainability of externally supported reforms gives rise to doubts and concern. The Dutch direct involvement in reform programmes, such as the PRI and Education Reform, and the Dutch provision of general budget support should be reason for bringing up sustainability questions as far as it concerns future Dutch assistance to Bolivia.

What is known and understood about the contribution that implementation of the sector-wide approach makes to poverty reduction?

With the implementation of the sector-wide approach in Dutch bilateral aid, the embassy's involvement in poverty reduction is largely indirect and depends on the willingness and capability of central government to implement pro-poor policies and spending. After all, this new strategy aims to enhance national capacity for poverty reduction instead of carrying out donor-driven projects and programmes which are separate from national political and administrative frameworks. But many obstacles exist, such as political instability and institutional weaknesses. Serious inequalities in income and access to public funds and sharp geographical and ethnic divisions call for a specific strategy to promote pro-poor policy

and spending, and supplementary measures are therefore necessary. The embassy has no such specific strategy to address these issues.

Nonetheless, there is evidence to show that the Netherlands has contributed to significant improvements in specific areas, such as education. There is no doubt that decentralisation has resulted in a significant increase in expenditure at the local level and that an important share of the resources channelled to the municipalities is distributed using poverty as the criterion. However, in the absence of comprehensive studies, it is difficult to reach a conclusion on the impact that these resources have had on poverty reduction.

Does the sector-wide approach work in Bolivia?

Political instability, governance problems, serious inequalities and exclusion are some of the main factors explaining why implementation of the sector-wide approach is so difficult in Bolivia and has produced only limited results thus far. At some crucial moments, the embassy's assessment of the conditions for the sector-wide approach was erroneous. Where conditions started to deteriorate, in several cases it did not adapt its strategy adequately. Many conditions are not in place for the application of programmatic aid and a major emphasis on macro aid. The context and institutional conditions should be taken into careful consideration before sectoral support is provided in future. As long as political instability persists, Dutch aid should be made less vulnerable to short-term political interests and institutional instability.

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