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Country Program Evaluation: Bolivia 2004-2007

Office of Evaluation and Oversight, OVE

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ACRONYMS

ABC	*Administradora Boliviana de Caminos*
ADN	*Acción Democrática Nacionalista*
ANB	*Aduanas Nacional de Bolivia*
BCB	*Banco Central de Bolivia*
CAF	*Corporación Andina de Fomento*
CAN	*Comunidad Andina de Naciones*
CNE	*Consejo Nacional Electoral*
COF	Country Office
CPR	Country Portfolio Review
EBRP	Bolivian Poverty Reduction Strategy
EIB	*Educación Intercultural Bilingue*
EIH	*Encuesta Integrada de Hogares*
ENDESA	*Encuesta Nacional de Demografía y Salud*
EU	European Union
FDI	Foreign Direct Investment
FSO	Fund for Special Operations
GDP	Gross Domestic Product
GOB	Government of Bolivia
GRUS	*Grupo de Socios para el Desarrollo de Bolivia*
HDM4	Highway Development and Management Model 4
HIPC	Heavily Indebted Poor Countries
HQ	Headquarters
IC	International Cooperation
IDA	International Development Association (of World Bank)
IDB	Interamerican Development Bank
IDH	*Impuesto Directo a los Hidrocarburos*
IEHD	Impuesto Especial a los Hidrocarburos y sus Derivados
IIRSA	Initiative for the Integration of Regional Infrastructure in South America
IMF	International Monetary Fund
INE	*Instituto Nacional de Estadísticas*
MAS	*Movimiento al Socialismo*
MDRI	Multilateral Debt Reduction Initiative
MECOVI	*Programa para el Mejoramiento de las Encuestas y la Medición de las Condiciones de Vida*
MERCOSUR	Southern Cone Common Market
MIF	Multilateral Investment Fund
MINEDU	*Ministerio de Educación y Culturas*
MIPYME	Micro, Small and Medium Enterpises
MIR	*Movimiento de Izquierda Revolucionaria*
MNR	*Movimiento Nacionalista Revolucionario*
MYPES	Small and Medium Enterprises
OVE	Office of Evaluation and Oversight
PBL	Policy-Based Loan
PCR	Project Completion Report
PND	*Plan Nacional de Desarrollo*
PODEMOS	*Poder Democrático Social*
PPMR	Project Performance Monitoring Report
PRE	Programa de Reforma Educativa
PRI	Private Sector Department
PRI	*Programa de Reforma Institucional*
PROFISI	*Programa de Fortalecimiento Institucional del SNII*
PROPAIS	*Programa Contra la Pobreza y Apoyo a la Inversión Solidaria*
PRSP	Poverty Reduction Strategy Paper
SIMECAL	*Sistema de Medición de la Calidad Educativa*

SIN	*Servicio de Impuestos Nacionales*
SITTEL	*Superintendencia de Telecomunicaciones*
SPNF	Non-Financial Public Sector
TC	Technical Cooperation
UDAPE	*Unidad de Análisis de Políticas Económicas y Sociales*
USAID	United Status Agency for International Development
VIPFE	*Viceministerio de Inversión Pública y Financiamiento Externo*
VMT	*Viceministerio de Transporte*
WB	World Bank
YPFB	*Yacimientos Petrolíferos Fiscales Bolivianos*

TABLE OF CONTENTS

EXECUTIVE SUMMARY

This document reports on the Bank's program with Bolivia over the past three years. To do this the programmatic intent of the Bank was assessed. Given the rapidly changing country environment, and the difficulties for the Bank in terms of programming and approving operations, the evaluation's strategy was to focus on selected sectors. These areas were chosen because they represented sectors in which the Bank has had a substantive role in the past as well as areas in which the Bank is increasing its presence and is expected to continue to do so in the future. The thematic approach also serves to highlight the nature of the Bank's value added for the country, and the importance of this value added for the Bank's program.

After almost two decades of conservative administrations, in 2005 Bolivians elected a leftist government, in the MAS and President Evo Morales. This change is seen as a result of continuing high levels of poverty, and with the perception that the reform policies of the 1990s and early 2000s did not deliver tangible benefits for the majority of Bolivians. During the period under review the country also experienced a substantial change in its macro-fiscal context, from large deficits, ballooning debt, and slow growth in the first years of the decade, to primary surplus, moderate growth, and a drastically reduced debt burden.

Central in this context is an assessment of the Bank's engagement in times of uncertainty and change. The evaluation found that the constantly changing economic and political scenario during the first years of the period under review presented the Bank with a challenging context in which to program and in which to execute.

The Bank's response during this admittedly difficult period was to react to events as they unfolded. Its strategic response to the rise of new constituencies in the country and the political uncertainty that ensued was to preface the strategy already developed with an ad hoc set of activities to be executed in the short-run while the political crisis subsided. However, the changes occurring in Bolivia in 2003 and 2004 proved not to be transitory in nature. They took the form of a far-reaching and more permanent change in the political topology in Bolivia, resulting in the election of a new set of actors. This placed the Bank at the negotiating table with counterparts which it had hereunto no experience, and with which it had no agreed upon strategy.

The Bank's engagement with the new authorities lacked a programmatic approach as well as a results focus. Without a set of agreed upon priorities and objectives, the Bank faced the challenge of improvising a dialogue with the new country authorities. This dialogue was conducted in portfolio review and programming missions. However, the evaluation found that despite the missions conducted, the Bank's engagement with the new government lacked analytical content as well as clear proposals regarding how the Bank could contribute to Bolivia's new development priorities. Regarding a result focus the evaluation found that the Bank used information of execution metrics as a basis for prioritizing and adjusting its program. However, it did not use information on results from its program as a basis for recommending changes in the portfolio.

The evaluation also looked at key sectors for the Bank. Given the rapidly changing conditions in Bolivia during the review period, as well as the difficulty in programming, the CPE's strategy was to look in depth at specific sectors that reflected different experiences in the Bank-Country engagement.

The Bank's involvement in education in Bolivia is synonymous with the *Programa de Reforma Educativa* (PRE). The Bank was, for the decade-long period in which PRE was implemented, one of the drivers of education reform. The evaluation revealed three main findings in education reform. The first is that the program was designed—and to a certain degree implemented—without the support of teachers. This was a problem that impacted the degree to which Bolivia owned the program and likewise the degree to which it was actually implemented in classrooms. These problems were particularly severe in schools serving indigenous populations, where suspicion regarding the reform's reach and its objectives was particularly salient. The second finding is that internal efficiency metrics improved over the period—including a substantial narrowing of differences in enrolment and incidence of normal progression between indigenous and non-indigenous populations. This finding is, however, qualified by the lack of consistent data on student performance.

The last finding is that the Bank did not sustain a dialogue with the country in education. Whereas during the mid-1990s the Bank was one of the major proponents of reform and one of the central figures in the sector, today it is an onlooker. The Bank has not made sector proposals, produced sector work, and it has not engaged the government regarding its sector priorities and programs. This, along with an abundance of cheaper (grant) money from the IC for the sector, has lead to the cancellation of the Bank's loan.

In customs and internal revenue the evaluation found a tale of two cities. In the case of customs, the program has by and large not been successful. The implementation story shows a lack of institutional continuity in customs, low commitment to sector changes, systematic problems in the implementation of specific components, and a resulting failure to reach program targets. On the other hand, in internal revenue the evaluation shows a consistent application of public policies, relatively robust institutionality and governance, and a program that has exceeded targets, albeit due in part to a more favourable macro scenario. The evaluation also finds differences in the engagement in each of the two sectors. In internal revenue the Bank used instruments effectively and intensively, approving TCs to set up initial conditions and following up with lending operations. The Bank has also made use of both its supervision and programming visits as opportunities to maintain a dialogue in the sector. In contrast, the effort in Customs is characterized by a loss of engagement—initially by the Fund and the WB, but also to some extent by the IDB. The evaluation also shows a concentration of interest by both the IC and Country on revenue targets in customs, with little emphasis on other aspects of Customs, such as monitoring and control of imports.

In roads infrastructure the evaluation found a sector facing a number of issues, including design and engineering problems, substantial cost overruns, a lack of focus on results, and problems reconciling environmental objectives and road construction objectives. However, it is also a sector in which there is need for additional investment, and the IDB has been and continues to be one of the major sources of financing for this need.

The evaluation found that the Bank's value added in roads, beyond its role as a source of financing, has been limited. In terms of costs, the Bank's value is in its procurement and bidding procedures. Although the evaluation shows that they do produce lower adjudicated costs, it is unclear if these adjudicated costs produce lower final costs. This is an area of concern for the current administration in ABC. The evaluation also found that the Bank is limited in its capacity to address engineering and design risks. Although the Bank tracks compliance with rules and procurement procedures, it has a limited value in assessing the quality of engineering reports or other analytical work which require the Bank's non-objection. A third area of value added is in providing method and analytical inputs to assess program benefits and to assist in sector planning. In this area the evaluation found that the Bank requires—and finances—cost-benefit analysis for its transportation projects. However, the review found that the assessments do not contain an adequate economic assessment, nor are they particularly useful for ABC as a method of prioritizing among alternatives. The Bank has also not provided value in looking at the development effectiveness of infrastructure investments. Lastly, the evaluation looked at the Bank's value added in the environment. In this area the Bank promoted an innovative, holistic approach to environment, by financing the environmental components of the entire Santa-Cruz Puerto Suarez road construction through a single loan. The evaluation found that that although the approach was promising, problems with the design and execution have limited the usefulness of the project to address environmental concerns that could arise as part of road construction, or longer-run impacts that could arise as a consequence of increased activity in the area.

The Bank's success in Bolivia toward the future is likely to depend critically on its ability to provide the country with timely and high quality value added. The growth of alternate sources of financing has placed increased pressure on the Bank to provide the country with high quality inputs, beyond its lending. This review shows that the Bank can do this, and has done this. It has not, however, done it systematically. The set of recommendations below are designed to address the quality of the Bank's engagement with Bolivia, and in doing so hopefully enhance the effectiveness of the Bank's program.

RECOMMENDATIONS

Recommendation 1. The evaluation showed the importance of having high-quality and specific expertise regarding the development challenges in a country experiencing rapid change such as Bolivia. It also showed the importance of having a quality and sustained sector-level policy dialogue with the Country. To this end:

> The bank should provide resources to maintain a continuous program of strategic analytical inputs in Bolivia. This program should be detailed in the Bank strategies and should be revised periodically, with analytical results being incorporated into the Bank's lending program.
>
> The Bank should engage the country early, continuously, and at both central and line ministry levels. The Bank should also review the staff and resources deployed to ensure that it has the capabilities as well as the analytical contributions required to conduct and maintain a policy engagement.

Recommendation 2. The evaluation also raises questions regarding the effectiveness of Bank procedures in promoting agreed-upon country development results in Bolivia. In order to ensure that its procedures are delivering adequate results, the Bank should:

> Assess the role of both procurement and technical review policies and procedures in producing both high quality and low cost products, particularly in roads.
>
> Assess the role of the Bank's results monitoring, evaluation, and economic evaluation procedures and policies in producing useful and timely evidence on program effectiveness.

I. INTRODUCTION

A. Overview

1.1 This is an update of the Country Program Evaluation of Bolivia presented to the Board by this office in 2004. The purpose of the update is to inform the Board, as well as country officials and entities, on the Bank's engagement with the country during these years, as well as on the results of this engagement. The CPE draws heavily from a number of methodologies and sources of information, including (i) personal interviews in-country and with bank staff, including analysis of interview issues raised, (ii) analysis of Bank documents on programming, execution, and results, (iii) macro-level and sector-level analysis of data, (iv) specialized surveys applied (Education). A list of data sources and interviews is included in the Annex.

1.2 OVE conducted three missions related to this review, in March of 2007 and September of 2007 to collect data for the assessment, and in April of 2008 to discuss results with GOB. The team also received comments from GOB, which highlighted, among other issues, the need to strengthen technical capacity in-country, the need for the Bank to more fully share its assessments with GOB, as well as the need to properly assess and use results in Bank programming. The full set of comments is included in the Annex.

1.3 OVE's strategy for the update is two-fold. Given the rapidly changing conditions in Bolivia during the review period, as well as the difficulty in programming, the CPE's strategy was to look in depth at specific sectors that reflected different experiences in the Bank-Country engagement. The interpretation of these results is made in the context of the Bank's recent engagement. These sectors were chosen in consultation with GOB and Management. They are Education, Revenue and Customs, and Roads. The evaluation also looked in detail at the Bank's engagement with the country with respect to both its programming and its execution.

1.4 The prior CPE of Bolivia looked at the results of the Bank and the International Cooperation's engagement with the country during an unprecedented period of continuity and reform, which went from 1990 to 2002. During this period the country engaged in an ambitious process of fiscal reform, market liberalization, privatization, administrative decentralization and governance reform, among others. The prior CPE found among the results associated with those reform efforts were an attainment of macro stability, a bolstering of citizen participation and democracy, as well as a gradual improvement in social sector indicators. However, the CPE also found at best mixed results with respect to many of the specific reform objectives. In general, and despite the merits of individual reforms undertaken, the past CPE found that Bolivia did not achieve broad-based growth or a more equitable society, and that despite the improvement in social indicators, the period also saw persistence in poverty and marginalization.

1.5 The prior CPE produced four main findings regarding the IDB. The first was that although the Bank identified most of Bolivia's development challenges—both in its programming documents and in its approved operations—it did not address some of the central issues to the country, such as dependence on foreign aid and persistent and pernicious issues of social exclusion. The second finding was that the IDB (and indeed the IC) and Bolivia mostly agreed upon a program of reform that lasted for thirteen years. Indeed, Bolivia was one of the first reformers, and for the most part was dedicated to the major tenets of what later become know as the Washington Consensus. The third finding was that many costs associated with reform were downplayed or simply not made explicit. The pension reform is a good example. Lastly, the CPE found that the overall effects of reform did not produce the results desired. The last CPE summarizes its finding as such:

"During the decade the Bank has found in Bolivia a partner receptive to the Bank's development program, which in addition was able to implement, together with the Bank, this program with greater efficiency than most other Bank members. This receptive environment created a long window of opportunity for the Bank and country reform programme. However, the Bank was unable to fully capitalize on this opportunity. Rather, the expectations generated by the Bank and the other actors involved in the reform of Bolivia regarding the impact of this reform have not been realized. Given average growth results, the persistence of poverty and social inequities, as well as the continued institutional weakness in the country, coupled with a heavy debt burden and an increasingly complicated fiscal scenario, it is time for the Bank to re-evaluate the nature of its involvement with Bolivia and critically assess the value added of its interventions."

1.6 Based on these findings the CPE stated that the Bank should "*re-evaluate the nature of its involvement with Bolivia and critically assess the value added of its interventions*", and issues two recommendations. The first was that the Bank "*characterize the benefits associated with the Bank's future lending program for Bolivia and the burden imposed by the same on the country*"; the second that "*the Bank take into account the role of country-specific characteristics in the effectiveness of the Bank's interventions, particularly to the extent that additional reform is made part of the country strategy*". The implementation of these recommendations is discussed in the delivery chapter (chapter II).

B. Country Context

1.7 The years being reviewed in the CPE are among the most turbulent in recent Bolivian history. After enjoying relative political calm during the 1990s, following the country's stabilization program, the country entered political turmoil in 2003. Strong rejection of policies on privatization, as well as other reform tenets, along with disenchantment with the persistence of exclusion and poverty, led to a series of protests against the Sanchez de Lozada government. Sanchez de Lozada, who had previously been president and one of the strongest proponents of reform, had been re-elected in 2002. These protests eventually lead to the resignation of Sanchez de Lozada, following the shootings of "Black October". He was succeeded by vice-president Carlos Mesa. However, Mesa was also unable to retain the presidency for long. As a result of the emergence of the MAS party as a political force in Bolivia, and as a result of the fact that Mesa did not have the support of the traditional parties in Bolivia, his government was hamstrung. Mesa eventually resigned in 2005, and was succeeded by Eduardo Rodriguez, the then Chief Justice, in a caretaker role, while new elections were held.

1.8 The rise of the MAS, and of its leader Evo Morales happened over a short period of five years. The MAS first became politically relevant in the 1999 municipal elections, where it obtained a small but significant portion of the vote (3%) and was able to elect municipal council members in 57 of 313 municipalities. By the 2002 general elections the party increased its presence markedly, obtaining 21% of the vote, enough to elect 7 senators and 27 representatives. By then it was clear that the movement would be a major factor in Bolivian politics toward the future and that Evo Morales would be a strong presidential candidate for the next elections.

1.9 The 2005 elections gave Evo Morales the presidency by a large margin. Morales received 54% of the vote, while the coalition of traditional parties (PODEMOS) received only 29% of the vote. Adding in the 6% of the vote retained by MNR, meant that the traditional parties in Bolivia had a little over a third of the seats in congress. In a country where presidencies are usually decided by post-election coalitions, the election result signalled a clear mandate for Mr. Morales. The election was also important given that for the first time a president was chosen from outside the Bolivian elites, and the first time a president of indigenous antecedents was elected.

Table 1.1: Sample means of welfare indicators, by self-declared ethnicity, two years

		2002			2006		
Dimension	Source	Non-indigenous	Indigenous	percent difference	Non-indigenous	Indigenous	percent difference
Education							
Normal progression	MECOVI	0.57	0.48	9.0%	0.61	0.53	8.0%
Completed yrs schooling of youth	MECOVI	9.64	8.23	14.6%	10.5	9.2	12.4%
Health and child welfare							
Incidence of stunting	ENDESA	0.25	0.38	-13.0%	…	…	…
Incidence of Anemia	ENDESA	0.45	0.56	-11.0%	…	…	…
Incidence of Diarrhea	ENDESA	0.23	0.22	1.0%	…	…	…
Child labor	MECOVI	0.09	0.2	-11.0%	0.1	0.2	-10.0%
Labor markets							
Labor earnings for full time workers	MECOVI	$1,346	$821	39.0%	$1,807	$1,098	39.3%
Formal employment	MECOVI	0.82	0.75	7.0%	0.56	0.36	20.0%
Housing markets and local services							
Incidence of crowding	MECOVI	0.42	0.5	-8.0%	0.54	0.59	-5.0%
Improved floors (not dirt)	MECOVI	0.79	0.57	22.0%	0.84	0.62	22.0%
Piped water	MECOVI	0.77	0.56	21.0%	0.84	0.63	21.0%
Sewerage	MECOVI	0.54	0.32	22.0%	0.61	0.36	25.0%
Land markets							
Average cultivated family land holdings (ha.)	MECOVI	2.42	1.32	45.5%	2.26	1.49	34.1%
Political participation							
Proportion eligible pop who vote	CNE	…	…	…	0.63	0.63	0.0%
Product markets/Welfare							
Poverty rate	MECOVI	0.45	0.67	-22.0%	0.41	0.6	-19.0%
Average household income p.c.	MECOVI	685	340	50.4%	990.21	519.33	47.6%

1.10 The Morales government inherited a country characterized by persistent inequities, many of which are along ethnic lines. In terms of ethnic differences the differences can be seen across most outcome and welfare measures. These include disparate access to public services, worse performance in school and worse health outcomes among indigenous peoples, worse labor market outcomes, limited access to productive land, worse housing conditions, and limited and more costly access to credit markets. It is not surprising that given the discrepancies in these markets, that aggregate measures of welfare, such as poverty levels, income, or measures of wealth, are highly skewed toward Bolivians of non-indigenous origin.

1.11 Table 1.1 shows differences in outcome indicators over time and by ethnic origin. As can be seen, differences run across the board, although in some areas the issue is clearly more serious than in others. Differences in coverage of education, for example, are relatively modest, and with respect political participation they are no differences. However, in other areas, such as labor markets, land markets, public services, and of course poverty and income, the gaps are very large. Average household income per capita is much larger for non-indigenous—almost twice as large. In labor markets monthly earnings are much larger, and in rural settings land holdings are also much larger. Also in health, the differences in stunting, anaemia, and child labor are substantial.

1.12 Table 1.1 also outlines areas where there has been improvement. For example, in schooling, outcomes have continued to improve, and the gap in ethnicity has been reduced. In terms of poverty there has been, again, a trend toward improvement, both in absolute terms and between groups, but modest. On the other hand, in labor markets, there is increase in nominal incomes, but changes in income differences remain. Furthermore, labor has become more informal—a stylized fact in the region—but in the case of Bolivia, this has had a particularly large incidence among ethnic Aymara, Quechua or other ethnic indigenous groups.

1.13 A second challenge facing the new administration is a political challenge. Although the 2005 results clearly gave the new government a clear mandate, many—if not most—of reform measures outlined in the country's development plan would imply winners and losers. This is particularly true in areas such as land reform, the provision of local goods, and the increased state control over productive sectors. A second source of conflict was the issue of departmental autonomy, which was initially defeated in a 2006 referendum on the subject, but which has recently gained momentum on the part of opposition governors.

1.14 These problems came to dominate the 2006 constitutional assembly, which ultimately was not capable of resolving them. Almost from the outset the meeting became confrontational in nature, with the government and the opposition taking increasing polarized positions. The assembly ended very much as it started, with a revised constitution that had ample support with government but not with the opposition, and that had support with the central departments, but not with the eastern departments.

1.15 Despite the increasing tensions between government and opposition, and between the groups who stand to win and lose under the reform proposals of the government, the country has experienced a favourable macro context. The increase in hydrocarbon and commodity prices (gas, tin and soybean, mostly) has contributed to an increasingly positive current account and to an accumulation of reserves[1]. The macro picture also led to increased revenues, and to fiscal surpluses. Table 1.2 shows the dynamics of major macro-fiscal indicators.

Table 1.2 Selected macro-fiscal data

Indicator	2001	2002	2003	2004	2005	2006
Output and Poverty						
GDP pc (current Bs pc)	2,749	2,752	2,762	2,811	2,858	2,922
Poverty (incidence)	63.1	63.3	63.1	…	59.6	…
Indigence (incidence)	38.8	39.5	34.5	…	36.7	…
Macro						
Growth (% change)	1.7%	2.5%	2.7%	4.2%	4.0%	4.6%
Gross Fixed Captial Formation (% GDP)	13.9%	15.6%	12.7%	11.7%	12.5%	12.9%
Change in Consumer Price Level	0.7%	2.9%	4.2%	5.4%	3.9%	6.0%
Fiscal						
Overall public sector surplus/deficit	-6.8%	-8.8%	-7.9%	-5.4%	-3.6%	-3.1%
Revenues (% GDP)	13.3%	13.5%	13.1%	15.2%	19.8%	22.8%
Of which, shares are:						
Value added (IVA, IVA-RC)	*0.20*	*0.21*	*0.23*	*0.19*	*0.14*	*0.13*
Transactions (IT, ITF)	*0.12*	*0.13*	*0.14*	*0.16*	*0.14*	*0.10*
Firms (IUE, IUE-RE, IRPE)	*0.11*	*0.11*	*0.10*	*0.12*	*0.11*	*0.12*
Hydrocarbons (IEHD, IDH)	*0.18*	*0.17*	*0.13*	*0.10*	*0.26*	*0.34*
Other internal	*0.16*	*0.15*	*0.16*	*0.22*	*0.15*	*0.14*
Imports	*0.23*	*0.24*	*0.23*	*0.22*	*0.20*	*0.17*

Source: INE, BCB

1.16 Along with a favourable macro-fiscal picture, during the period Bolivia also saw a sharp fall in debt ratios. This was due in large part to debt relief, under the multilateral debt relief initiative (MDRI), as well as the IDB debt reduction initiative[2]. From a high of roughly 80% of GDP, Bolivia's total public sector debt now stands in the neighbourhood of 30% of GDP. This marks a dramatic reversal; at the beginning of the programming period Bolivia was financing debt on ever-worsening terms, has large contingent liabilities associated with old-age reform, and had been unable to approve tax reform. At the end of the period the country had obtained substantial debt relief through MDRI, had passed tax reform and had improved tax administration, had increased taxation on hydrocarbons to 50%, and had been able to bring pension costs under control.

1.17 The positive aspects of the macro picture were highlighted by the IMF, as recently as it last article IV consultation. According to the IMF "*Benefiting from a favorable external environment, the Bolivian economy displayed positive trends in 2005 that are so far being maintained in 2006 ... The overall deficit of the combined public sector is projected to narrow to near balance in 2006*." They also mention, "*...the short-term outlook is positive and the global environment for exporters of energy and minerals is expected to remain favourable*." However, the Fund did identify medium-term risks, such as "*[the budget deficit] is driven by a large increase in hydrocarbons-based revenue that may be partially reversed in coming years*", and "*[the medium-term outlook] is particularly sensitive to developments in the hydrocarbons sector, where considerable uncertainty* *prevails at this stage regarding the modalities for implementing the recent nationalization decree*."

1.18 The fiscal picture has also improved given the policy shift pertaining to government royalties. The increase in royalties, made explicit in new gas agreements signed between the government of Bolivia and the country's main gas exploiting corporations, has increased the gas price elasticity of government revenues. However, much of government revenues accrue directly to the departments—this has attenuated the impact of commodity prices on central government revenue. It has also generated an unequal allocation of resources among departments in Bolivia, where gas-producing areas benefit greatly, whereas regions that do not produce gas do not benefit as much. This division of revenue is an important part of the dialogue in Bolivia regarding the role of the central government versus the role of the different states.

1.19 The positive fiscal picture has also been helped by a higher growth environment. Whereas in the prior programming cycle the country's growth results were meagre in real terms (and null in per capita terms) in the last few years growth has increased. For the last four years Bolivia posted average growth rates of 4 percent, compared to only 1.8% over the preceding four years (1999-2002). These still have to be considered moderate real growth rates, but they do allow greater flexibility in public policy and increased options in terms of public sector investment.

II. THE BANK'S PROGRAM

2.1 The Bank's current strategy was approved in 2004. There was an update presented to the Board and approved in 2007, as well as three portfolio rationalization exercises, which also implied changes in the programming[3]. These exercises took place late in 2004, in 2006 and in 2007, being that the last was a result of the cancellations required as part of the IDB's debt reduction initiative (the Bank's version of the MDRI).

2.2 As was detailed in the previous section, the strategy was approved in an environment in which public opinion in Bolivia was highly critical of the reform process of the previous 15 years. The strategy was also approved at a moment in which the former president of Bolivia, Gonzalo Sanchez de Lozada, had resigned, and in which the indigenous and rural movements, lead by the MAS, were gaining support and influence. In addition, the country had posted large budget deficits, due in part to the unanticipated costs associated with the pension reform program.

2.3 Given these constraints, the government program of then president Mesa was focused on three main aspects: (i) renegotiation of gas royalty agreements, (ii) macro stability and reduction of budget deficits, and (iii) obtaining some form of broad-based support for the government through a national dialogue program and possibly through a new constitutional assembly. Also, by the time that these objectives are identified, it is clear that the PRSP framework that had guided programming of the IC during the prior two programming periods would no longer be central to Bolivia.

2.4 The 2004 Bank strategy reflects the immediate problems faced by the country. The strategy is caught between identifying short-run measures to address the fiscal and political crisis, and a longer-term measure to promote growth and social objectives. The document is clear regarding the immediate challenges facing Bolivia. It states that "*El escenario en el cual se implantará esta estrategia es complejo, como lo revelan los problemas que ha enfrentado el Gobierno para manejar los desafíos más urgentes, como la crítica situación fiscal. La amplia percepción de que las reformas de la pasada década no funcionaron y más bien fueron negativas para el bienestar de los pobres, unido a la crisis económica, limita la profundidad y celeridad con la cual el Gobierno y en este sentido el Banco, podrán abordar estos desafíos. Adicionalmente, ante la fractura política y social que aqueja a Bolivia, resultará muy difícil alcanzar los consensos mínimos para desarrollar una visión de desarrollo para el mediano y largo plazo a un nivel de concreción tal que resulte útil para orientar el gasto público o la ayuda multilateral durante los próximos cuatro años*." As a result, the strategy identifies short-run objectives of risk mitigation: "*En estas circunstancias excepcionales, la EPB se ha concebido como un proceso en el cual se identifican intervenciones que en cooperación con otros donantes aminoren los riesgos de mayor inestabilidad económica y social, y eviten retrocesos en los logros sociales de la última década*". It also identifies medium-term objectives associated with sustainable growth and basic services: "*El Banco aprovechará los espacios que surjan en Bolivia para avanzar en objetivos de más mediano plazo, específicamente: (i) crecimiento económico y desarrollo productivo* *sostenible, y (ii) desarrollo de un piso mínimo de servicios básicos para toda la población extendiendo los logros sociales de la década pasada.*"

2.5 The activities identified in the strategy fall under either the short-run or the medium-run objective. The short-run measures that are proposed are essentially measures to address short-run fiscal challenges in the context of the Fund's standby agreement; they include (i) continued implementation of the Bank loan to deal with liabilities from the country's pension reform, (ii) development of operations to deal with Banking sector deficiencies, (iii) redirection of loan balances to protect social spending. The details of the financial sector loan, as well as the portfolio rationalization exercises are to be developed, according to the strategy, in future programming efforts. The medium-run activities are organizad along Bank-specific objectives: "*Mejorar la gestión y transparencia del Estado; Apoyar la competitividad y el desarrollo sostenible del sector privado; Mejorar la eficiencia y equidad en la prestación de servicios básicos.*" Under each of these headings specific activities are identified, both in the text and in the logical framework.

2.6 Despite the identification of the magnitude of the immediate challenges facing Bolivia, the strategy does not properly assess the causes which lead to the country 2004 fiscal and political crisis. It acknowledges that poverty has not improved substantially and that growth has been low, yet it makes no critical assessment of the role of reform in these poor results. The strategy poses the fundamental development question facing the country: how can the country's poor performance be reconciled with its exemplary reform effort: "*El récord establecido por Bolivia, sustentado en disciplina monetaria y cambiaria, reforma financiera, apertura comercial, desregulación y privatización de sectores productivos, reforma educativa, reforma de pensiones y la descentralización, difícilmente igualable por otros países de la región…Con este precedente, no sorprende que para muchos, en particular para los propios bolivianos, resulte contradictorio que todo este esfuerzo no haya rendido los frutos esperados en crecimiento, estabilidad macroeconómica y principalmente, reducción de la incidencia de la pobreza.*" However, this question is not addressed, much the less answered, in the strategy paper.

2.7 The strategy also does not identify and analyze the Bank's role in the changes underway. The strategy's self-assessment, presented in chapter III of the document, is characterized by statements of the Bank's efforts and its accomplishments which are patently contradictory with the diagnostic presented in chapter I. This contradiction was clearly noted in OVE's 2004 assessment of country strategies: "*The exhaustive nature of the Bank's involvement with Bolivia, both thematically and in terms of the magnitude of financing, is not reflected in the document. Rather, the Bank is treated as an observer in the country; almost as if it had no substantive role to play in the unfurling of events over the last twenty years. The Bank's relevance in the country or the effectiveness of its interventions are only addressed with approving statements of impact, with little or no supporting evidence and in most cases devoid of any specific content.*" (Evaluability Note for Country Strategies, March of 2004).

2.8 At the sector level the 2004 strategy provides evidence of achievements, but these are sporadic and partial. For example, in the case of roads transportation, the fundamental questions of the role of infrastructure in growth, development, integration and poverty reduction is not addressed. The evidence presented is on transit times. That is, when roads are improved or when new roads are built, the transit times are reduced, and therefore transaction costs are also reduced. Although this is certainly true, the central question facing roads infrastructure and development relate to prioritization, and to characteristics of the network that are required to promote growth, reduce poverty, and to integrate different regions. Another example is the case of education. Here evidence is presented regarding the achievements in internal efficiency, which was certainly one of the sector's objectives and challenges. However, the discussion of education as a tool for social inclusion focuses on topics which are no longer current in Bolivia, even as it does not address the central question regarding equity.

2.9 The strategy also does not present a clear diagnosis of the political events overtaking the country starting in 2003. Lacking this diagnostic, the strategy does not identify a full set of short-run measures necessary to obtain the strategy's short-run objective of risk mitigation. The measures proposed to deal with the short-run crisis are all targeted toward the fiscal crisis; there are no measures proposed to proactively adjust to the fundamental political shifts observed in the country. The paper's strategy in this dimension can be best characterized by "wait and see".

2.10 Furthermore, the short- and long-term strategies are not linked. There are no identified triggers or criteria to guide the Bank in its migration from the crisis strategy to the development strategy. There is also no relationship between the activities in one and in the other: they are treated as independent solutions for independent problems. The long-run strategy does not contain elements to deal with the fundamental causes of either the fiscal or the political crisis. Partly given the lack of reflection by part of the Bank regarding the core causes of the political crisis, the medium-term strategy treats the political shift seen in the country as both transitory and exogenous. This view turned out to be incorrect.

2.11 Almost as soon as the strategy came into effect, it was also rendered obsolete by events in-country. The moving up of elections to 2005, and the resulting victory of MAS and Mr. Morales required the Bank to redesign its program along the lines of the new government. The new government would propose a new development programmed, which would eventually be incorporated in the Plan Nacional de Desarollo (PND). This was a break from the framework of prior years, in which a PRSP served as an important vehicle for coordinating IC aid in Bolivia. It also became clear that the vehicles of dialogue and coordination would need to be re-establsihed.

2.12 As a result, the intense dialogue and programming effort leading up to the strategy approval produced few tangible changes in the portfolio. The Bank's program of institutional strengthening and transparency, competitiveness, as well as the rural activities being proposed, was not developed. Nor was it possible to execute a meaningful realignment of portfolio resources toward social protection and other short-run measures to deal with the crisis identified by the Bank in its strategy.

2.13 One of the consequences of programming without the benefit of a relevant strategy is that decisions made by the Bank were not subject to the usual review process. For example, during the period the Bank moved toward a consolidation of portfolio in infrastructure and away from portfolio in social areas. However, a discussion of the expected benefits of this strategic decision—to the borrower and the Bank—was never formally articulated. It was also not subject to the vetting process associated with the presentation of a strategy to the Board[4].

2.14 In 2005 and 2006 the Bank continued to engage the government of Bolivia regarding the inadequacies of the portfolio and the operative problems that it faced, fielding a series of portfolio review, operations review, and programming missions. The Bank also took this opportunity to program new operations, identifying a tentative lending program in May of 2005, and later in February of 2006. During these missions operations were dropped and added from the pipeline. These missions eventually lead to second and third rationalization exercises in 2006 and in 2007, being that the last was as a part of the debt reduction initiative.

2.15 The 2006 rationalization was designed early in the year, and approved by the Board in May. The agreement reached was that operations that had residual balances and whose final dates for disbursement had either expired or were near expiration would have most or all of their balances cancelled. Also agreed was the reorientation of balances of operations that were relatively new but that were not disbursing well, the most important of which was, from a funds availability point of view, the second phase of the education loan. The rationalization document identified that 43 million dollars in funds were to be redirected in all, partly to finance the emergency due to rains in January and February and partly to provide additional funds to the PROPAIS program[5]. These changes were ratified by an additional mission in April, in which a total amount of 43.3 million to be restructured was identified off of changes in five programs.

2.16 By the time of the second portfolio rationalization in 2006 the Bank was well aware of the uncertainties regarding the future of FSO. Following the G8 meeting, MDRI momentum had led the World Bank to approve debt forgiveness in the amount of roughly 40 billion dollars for its IDA countries. Discussions at the IDB followed along the same lines, and focused on how to implement debt relief, a restructuring of FSO, and the options available for financing this debt relief.

2.17 Discussion regarding debt reduction at the IDB culminated in an agreement in which countries would be eligible for a mix of concessional and non-concessional funds. The agreed upon cut-off date for eligibility was 2004. That means that more recent loans would not be part of the deal. In the case of Bolivia this implied debt relief of roughly 1 billion. However, given that there was no replenishment of FSO, any future lower cost lending or grant money from FSO would have to be financed by the loan repayments of loans not part of the deal, and partly by cancelling undisbursed balances of currently approved FSO loans. The other implication of not having refunded FSO was that future lending to Bolivia would be according to a mix of FSO and non-FSO funds. For Bolivia IDB debt reduction thus had two other effects, a phasing out of concessional and a cancellation of a portion of undisbursed loan balances.

2.18 Debt reduction cancellation was the third change to the portfolio in as many years. It was also the most significant of the three; both due to the magnitude of the changes and due to the fact that balances were being cancelled, rather than redirected. The total amount in required cancellations was of 75 million dollars. The sectors that were most impacted were rural development and education. Between funds for producers, rural electrification, and rural land regularization, 35 million were cancelled. Also cancelled were funds from PROPAIS—another 10.5 million—the same program that had been the recipient of loan rationalization only one year earlier. In education, this marked the second reduction in funds in the sector, which already had had funds cut in 2006.

2.19 Despite the difficulties involved, the rationalization exercises also provided an opportunity for the Bank to improve the impact that its program could have. This opportunity, in turn, demanded a critical review of Bank-supported policies, in order to determine what was working, what was not working, as well as an identification of new needs in country. This exercise was particularly important given the new government's expressed interest in identifying the best use of funds, and given that the need the new government faced of either developing new public policies or changing the ones inherited. Programming documentation reviewed and interviews conducted show that an assessment of the portfolio's effectiveness was not carried out.

2.20 In its programming and oversight documentation the Bank identifies the poor execution of the portfolio as its fundamental preoccupation. This is a concern, front and center, in the 2004 strategy, in the 2005 Portfolio Review and Operations Review, the 2006 portfolio rationalization document, as well as in the memory aids of the programming missions in 2006 and 2007. Although the documents reviewed mentioned that redirection of funds would be required to achieve better results from the Bank's portfolio, the only documented assessment conducted by the Bank regarding portfolio performance was operative in nature, such as an itemization of projects by degree of execution delay. This was true of the 2006 portfolio rationalization and of the 2007 exercise. In both cases the Bank's contribution to selecting projects to restructure was based on execution metrics. There is no evidence in the documentation reviewed of the Bank utilizing sector-level and program-level results as a basis for prioritization of resources[6].

III. DELIVERY

3.1 Chapter II showed the difficulties faced by the Bank in developing a program with Bolivia throughout the period 2004-2007. In this chapter the implementation of this program is reviewed, based on standard implementation metrics calculated by OVE, and complemented by information obtained in country missions and interviews.

3.2 The first area of analysis in delivery is the actual approval of a program. Here there are several findings that differentiate the period from prior programming periods. The first regularity is the absence of policy-based loans. Whereas these loans were the hallmark of programming in Bolivia during the 1990s, in the present programming cycle they are absent. In short, the new environment and the new government had very little appetite for additional structural reforms.

Table 3.1: Programmed and approved loans (non-PBL)

Operation Number	Programmed	Approved	Year	Amount (millions)	Percent Cancelled	Operation Name
BO-L1012	YES	YES	2007	10.0	0%	Social Protection and Community Integral Development
BO-L1016	NO	YES	2007	12.3	0%	National System for Development Financing
BO0223	NO	YES	2007	20.0	0%	La Paz Storm Drainage Program
BO-L1013	NO	YES	2007	21.0	0%	Small Community Water Program
BO-L1015	NO	YES	2007	21.0	0%	Performance-based Road Maintenance Program
BO-L1001	YES	YES	2006	10.0	0%	Corporate Enhancement Support Fund
BO-L1007	YES	YES	2006	15.0	0%	Consolidation of Institutional Reform in the Revenue Area
BO-L1011	YES	YES	2006	120.0	0%	Santa Barbara-Rurrenabaque Northern Corridor
BO-L1006	NO	YES	2005	13.0	0%	SNIP
BO-L1005	NO	YES	2005	15.0	0%	Improve Efficiency of Public Management
BO0224	YES	YES	2005	20.0	100%	Rural Electrification
BO0216	YES	YES	2004	28.5	0%	Reactivation of the Center of La Paz
BO0200	YES	YES	2004	33.1	0%	Northern Corridor Highway Program: La Paz - Caranavi
BO0220	YES	NO	N/A	10.0	N/A	Innovation program in support of competitiveness
BO0210	YES	NO	N/A	10.0	N/A	Rural infrastructure program
BOXXX1	YES	NO	N/A	10.0	N/A	National Irrigation (PRONAR)
BO-L1003	YES	NO	N/A	20.0	N/A	National Property Rights Program
BO0207	YES	NO	N/A	15.0	N/A	National Transparency Program
BO0209	YES	NO	N/A	10.0	N/A	Support for Justice Sector
BO-L1009	YES	NO	N/A	80.0	N/A	Conexión grandes ciudades
BO-L1010	YES	NO	N/A	10.0	N/A	Public Management Efficiency II
BO-XXX2	YES	NO	N/A	20.0	N/A	Basic Sewerage
BO-XXX3	YES	NO	N/A	25.0	N/A	Irrigation Program

3.3 The second finding is that the program was done for essentially one year. Operations proposed on a longer timeframe were not approved, or had delayed approval to subsequent years, or were restructured into other operations in subsequent years. Thus, operations programmed for the 2004 year in the strategy mostly were approved, whereas those for 2005 were not. Likewise, during the missions to restructure the portfolio, operations identified for 2006 were approved; those for 2007 mostly were not. In the aggregate, of all public-sector lending operations programmed either during the strategy or during the programming missions of 2005 and 2006—17 operations in all—7 were approved. Conversely, of all public-sector lending operations approved roughly half—6 of 13—were approved without having been programmed in a strategic document.

3.4 The third finding is the thematic shift in the Bank's portfolio, though a process of approvals, cancellations, and attrition (end-of-life operations finishing execution). Couched in terms of the Bank's strategy, the approvals were heavily in infrastructure and other activities associated with the strategy's "Competitiveness and support for the private sector" medium-run objective; 196 million in 5 operations were approved in this area, mostly in roads infrastructure. This compares to 43 million approved in three operations to promote "Transparency and government management" and 100 million in five operations to promote "Quality and equity in provision of social services", being that 20 million of these were cancelled. This can be clearly seen in Table 3.1, which details all loan operations programmed and approved, as well as those programmed and not approved.

3.5 Non-sovereign guarantee operations (NSG) were also approved, but suffered the same type of execution difficulties as other operations during the period. In terms of approvals, the Bank approved two operations: 31 million for an electric transmissions line, and a line of credit line with *Banco de Credito Bolivia*, for 8 million. The Bank is also finalizing a loan for an expansion of the transmission line in the department of Santa Cruz. In comparison, in past programming the bank had helped to finance the pipeline with Brasil (Transredes), water investments in El Alto (Aguas de Illimani), as well as telecommunication network infrastructure (Redibol).

3.6 The successes and failures of the Bank with respect to water, energy and telecommunications were reviewed as part of the prior CPE. However, since the CPE many of the Bank-financed operations in Bolivia have been impacted by the rejection of many of the privatization initiatives of the 1990s and by the change in the political environment. In the case of Aguas de Illimani, the concession was terminated in 2007 after strong protests by groups in El Alto[7]. Transredes was also impacted by Government's policies regarding the nationalization of the sector. In the case of ISA Bolivia, the changes thus far have been in lower tariff rates, although this has not impacted the Bank loan. In the case of Redibol, now known as AXS Bolivia, the Bank and the company shareholders recently reached a settlement (the details of which are not public)[8]. An assessment of the Bank's risk assessment and management of the loan is beyond the scope of the CPE.

3.7 Despite the Bank's difficulty in programming and executing, the MIF was able to program and approve components on rural development, including a loan for financing rural producers, and a micro-credit loan. Given that the public sector lending in rural development was either dropped or cancelled, this places the MIF as the primary Bank instrument in the sector.

3.8 Table 3.2 shows the evolution of standard delivery metrics over the last seven years. The periods 200-2001 is provided for ex ante comparison purposes, and 2002-2003 is included as this was the period in which consultations were being held with the new GOB regarding the Bank's 2004 country strategy.

Table 3.2: Delivery metrics for Bolivia an the IDB: 2000-2007

	Bolivia				Bank			
Delivery metric	2000-01	2002-03	2004-05	2006-07	2000-01	2002-03	2004-05	2006-07
Timeliness of program design								
Preparation time, INV (mos)	11	25	12	13	19	15	15	11
Preparation time, PBL (mos)	5	5	8	n.a.	7	9	9	14
Months to first disbursement, INV (mos)	11	18	17	18	14	13	14	10
Timeliness program in execution								
Incidence portfolio underdisbursing (FGT0)	0.75	0.73	0.69	0.74	0.75	0.81	0.80	0.79
Degree of underdisbursement (FGT1)	0.14	0.19	0.21	0.23	0.20	0.29	0.30	0.24
Average age of operations (mos)	49	47	51	57	43	43	47	48
Quality of the program in execution								
Incidence of problem DO (PPMR)	0.06	0.14	0.18	0.18	0.13	0.13	0.11	0.10
Incidence of problem IP (PPMR)	0.2	0.26	0.32	0.21	0.27	0.29	0.25	0.22
Fiduciary quality of program in execution								
Proportion "Qualified" Audits	0.30	0.32	0.30	0.23	0.25	0.19	0.22	0.18
Proportion late audits	0.13	0.08	0.09	0.13	0.58	0.50	0.39	0.49
Oversight of the Bank's program (missions)								
Generating portfolio (programming)	5	14	11	6	4	15	15	12
Executing and monitoring portfolio	56	112	85	58	73	80	78	68
Generating knowledge	n.a.	22	19	17	n.a.	26	28	22
Total missions	97	166	132	107	136	137	135	127
Non-financial products	18	28	5	5	14.1	12.8	8.8	6.6
Financial metrics#								
Disbursements	84.4	114.5	335.1	158.0	12225.8	11734.7	12859.3	5244.3
Collections	5.0	7.1	16.0	17.3	2060.1	4814.5	9593.8	4193.8
Net Cash Flow	79.4	107.4	319.1	140.7	10165.7	6920.2	3265.5	1050.5

Excludes 2007

Sources: IDB data warehouse tables

A. Dynamics of Bank delivery

3.9 The first column shows that in general the Bank's operation metrics were slightly better than the Bank average in the 2000-2001 period. Preparation times were somewhat shorter, execution delays –and their severity—were comparable or somewhat better than the Bank, the incidence of reported problems was lower, and the proportion of audits produced on time was greater—even if the quality of audits was worse. The portfolio was also less monitored than the average Bank country, with 56 operation, review, administration and oversight missions, as compared to 73 such missions on average for the Bank (average per country). During the latest period efforts in sector work also lessened: both in terms of missions related to sector work and with respect to the production of sector work in terms of non-financial products. In terms of non-financial products in particular, there is a collapse of projects approved, from 28 for the biennial 2002-2003, to only 5 in the subsequent two biennials.

3.10 Next we see that metrics worsen significantly in the biennial immediately preceding the preparation of the strategy, even as the Bank's in-country effort increases markedly. The delays in the approval of a typical operation during this period increase from 11 to 26 months, as the Bank experiences difficulty approving operations in a worsening fiscal and political environment. Although the incidence of projects under-disbursing does not increase, the severity of these disbursement problems, conditional on having them, increases from 0.14 to 0.19. The Bank's supervision system also picks up on the operational problems, as the incidence of problem projects (low IP) and incidence of poor DO also increase vis-à-vis the prior biennial period. There is also an increased effort by the Bank during this period, both to solve operational problems and as a result of the programming activities related to the new country strategy. This is seen by the dramatic increase in programming and in operative missions. Overall, missions increased 70%.

3.11 Despite measures undertaken, the implementation metrics have not improved—either in the 2004-2005 or in the 2006-2007 periods. On the contrary, in many instances they have worsened, although it is true that metrics for the Bank as a whole have worsened over the latest period (2006-2007). On face value, this suggests that the corrective actions have not had the impact desired, or that they were insufficient to overcome problems faced by the Bank in-country. This view is consistent with the Bank's diagnostics of the portfolio's performance in 2006 and 2007—both of which identify serious concerns in execution. It is also important to note that following the increased activity in 2002-2003, the intensity with which the Bank manages its portfolio—at least as it is measured by missions to country—falls. Programming missions also fall, as do missions to support knowledge activities.

B. Evaluability

3.12 The 2004 country strategy was assessed as part of OVE's 2006 review of country strategies. In terms of measurement of results the strategy identified indicators for 30% of objectives; however in almost no cases were these accompanied by baseline and target information. This placed it among the average of what was then a group of programming documents that on the whole did not score well on measuring results.

3.13 It is also not surprising, given the difficulties in implementation, that most of the results that were identified in the strategy were not tracked. Of the full set of results identified in the logical framework, 20% were actually tracked and reported through the portfolio review mission, or through the PPMR and PCRs. The social and the macro-fiscal development objectives were tracked better than the competitiveness objective, partly because their objectives and indicators were better defined in the strategy initially and partly given the relatively better quality data in these sectors. There were no competitiveness objectives that identified outcome indicators that were then tracked by the Bank. In the stability and fiscal objective 28% did so and in the public services objective 37% did so. Results-frameworks are presented in the Annex.

3.14 In terms of measuring results at the project level, of the 13 public sector projects approved during the period, only 3 of them identified a set of outcome indicators for their development objectives, and of these none identified a full set of metrics (indicator, baseline, target). Projects in roads tended to do better, although there is a caveat. Roads projects do not purport to measure benefits from infrastructure investment, but rather present as indicators ex ante and ex post benefits simulations. Likewise, roads projects do not attempt to assess the relevance of the particular road segment (or corridor) on broader objectives such as integration, growth, and poverty. This is discussed at greater length in chapter IV.

C. CPE recommendations

3.15 On July 2004 OVE presented to the Board of Directors the CPE for Bolivia. The CPE stated that the Bank should "*re-evaluate the nature of its involvement with Bolivia and critically assess the value added of its interventions*", and toward this end two recommendations were presented, each with a series of actions to be undertaken. These recommendations were to "*assess the benefits of the Bank's future lending and the burdens of the same*", and "*take into account the role of country-specific characteristics in the effectiveness of the Bank's interventions*".

3.16 The compliance with specific items of the recommendations is detailed in Table 3.3 below. With regard to the re-evaluation of the Bank's program, the change in government of 2005, the review in chapter II of the programming makes a strong case for a strategic engagement very similar to that of other periods. The fact that the strategy was not revisited as a result of the emergence of new political constituencies with different agendas is emblematic that at least as regards its main strategic vehicle with Bolivia, there was no re-evaluation.

Table 3.3: Compliance with prior CPE recommendations

Recommendation	***Compliance findings***	***Notes***
Assess debt dynamics and incorporate into programming	Yes	The Bank financed a high-quality assessment of debt dynamics and fiscal projections.
Assess transaction costs of working with the Bank.	No	There has been no assessment.
Prioritize among interventions based on assessments of benefits, costs, and value added	No	This has not been assessed, and the de facto prioritization has been based on execution efficiency
Identify coordination bottlenecks in harmonization	Partial	The Bank has worked on harmonization on several fronts, but the effort has been incomplete. The main coordination effort in Bolivia is through a periodic meeting that is well attended by the IC (GRUS group). Nevertheless, the absence of GOB in these meetings limits their value. Also, since the prior CPE the Bank has signed the Paris Declaration, which provides structure and common goals to Aid Effectiveness.
Assess the politics environment and incorporate into programming	Partial	The Bank has financed assessments in this area; yet in practice the programming did not recognize topological change in constituencies and actors in the country in its programming.
Assessment of resource constraints	Yes	The assessment was done and included as part of the programming diagnostic. The program itself, however, did not adequately reflect the findings of the analysis.
Social exclusion	Partial	There were studies done in-country, including as notes for the policy dialogue, but these were not incorporated into the programming thus far.

3.17 Of the seven specific measures to be implemented, two were fully implemented, three were partially implemented, and two were not implemented. Among the measures fully implemented was a macro-fiscal assessment of debt dynamics. The assessment was done, ironically, at a time when the macro-fiscal constraint is no longer a short-run constraint. However, useful results fell out of the work, including the consequences of the system of hydrocarbon partition to central government spending. More broadly, an assessment of resource constraints was conducted, both as part of the 2004 strategy and as part of the new strategy.

3.18 In terms of the partial findings, the partial qualification was due to the fact that the results of the sector work undertaken by the Bank regarding the emergence of new constituencies do not make their way into the programming. Regarding harmonization—the Bank undertook efforts to improve coordination, including the establishment of semi-regular meetings by part of the IC. However, the absence of GOB in this forum limited their effectiveness. This was confirmed anecdotally by the difficulties encountered by the Bank in working with European partners, particularly in the areas agriculture technology[9].

3.19 There are, however, two cases in which the recommendations were not implemented. The first is regarding the costs that working with the Bank imposes on Bolivia. There was no specific assessment of these costs for the case of Bolivia, even as interviews with different parts of GOB suggested that the IDB's concessional funds come with a number of associated costs, such as those involved in coordinating the activities of a large number of executing unit activities, complying with procurement rules, and complying with specific Bank auditing requirements. The second case was that of prioritizing among Bank interventions. The poor tracking of results and poor assessment of the effectiveness of Bank-supported activities at the sector level also made the identification of benefits a difficult task. And regarding the application of results-based principles, revealed preference showed that when the Bank was forced into a position of making choices—or helping its client make choices—regarding portfolio changes, the Bank has not made these decisions based on project results.

IV. RESULTS

4.1 In this chapter the results and underlying issues are reviewed in three sectors. The choice of these sectors was based on their past, current, and (expected) future relevance in Bank lending. They also were chosen given that comparisons in how the Bank works across sectors are informative regarding the value added that the bank can have in Bolivia.

A. Education

4.2 The Bank's involvement in education reform dates from the mid-1990s, when the Bank took on a leadership role in the Programa de Reforma Educativa (PRE). The reform consisted of two loans, one approved in 1994 for 76 million, and a second loan approved in 2003 for 8 million. The Bank's participation in the sector, which was essentially through the PRE, is reviewed in a background note (Annex) and summarized here.

4.3 The PRE was a major educational reform initiative. It was ambitious in its scope, being implemented on a national scale, and involving many facets of the education system. In this sense it is a break from the reforms of the sector in the 1980s, which were regionally based, fragmented, and of short duration. PRE's objective was to improve the efficiency and equity of the education system. By efficiency it meant the internal efficiency of students progressing through grades, as well as their performance after they graduated (referred to in the loan as external efficiency).

4.4 The program's specific components included transforming the educational curriculum, decentralizing decision-making and incorporating community participation, implementing a constructivist teaching method, implementing bilingual education, improving measurement in education, and introducing incentives for teacher performance.

4.5 PRE was also implemented at a time when the IC was committed to education reform. Even if there was no clear diagnostic of the aspects of the education system that did not work, there was a common understanding that educational performance in Bolivia was not performing well. Both the multilaterals and the bilateral supported PRE, although by all accounts the major players were the World Bank and the IDB.

4.6 Despite the breadth of the program's components, and the common consensus among the international cooperation regarding PRE, today many aspects of the reform have been rejected by the government of Bolivia. The new government is vocal in its criticism of the IC and its support of the past reform efforts. Their view is that the reform was imposed from outside, and did not have the interests of the poorest and most marginalized Bolivians at heart. As this regards the IDB, GOB has cancelled the second loan with the IDB, as part of the MDRI exercise, marking an apparent exit of the Bank as a major player in education in Bolivia.

4.7 According to Bank metrics PRE's implementation does not stand out either as an example of poor performance or good performance. However, a review of Bank documentation and interview results point to key implementation issues. The first was the lack of buy-in from teacher. In-country interviews, as well as OVE's survey to teachers and directors, shows that teacher's unions were never part of the reform. The second was the lack of continuity within the Ministry In-country interviews show almost uniform agreement that frequent staff and leadership changes produced lulls of implementation, while the new actors familiarized themselves with the characteristics of the job. Third, logistically the program demands exceeded the executor's capacity. For instance, the printing time and arrival of textbooks were not adequately coordinated. There was also a lack in coordination between teacher training and the curricula that they were to teach, so that in many cases teachers did not use the new pedagogical materials.

4.8 In order to corroborate the evidence above , OVE conducted a field interview of 71 schools. The results of these interviews corroborate some of the opinions expressed in interviews, just as it disqualifies others. For example, despite the reported repudiation of reform by teachers, the results show that (i) teachers implemented and continue to implement the pedagogical changes, (ii) the reform provided teachers with training opportunities that they otherwise did not have (mainly through the *Assessores Pedagogicos*), (iii) that most school councils were in operation.

4.9 On the other hand, other problems identified during interviews are obviously still important. Directors in areas of indigenous families report that only in 25% of the cases do textbooks and other materials consistently arrive consistently in the correct language. This is consistent with the logistical problems reported elsewhere in reviews of PRE. Parents report that the school councils are mostly comprised of teachers, and not of parents themselves. It is unclear how much parents can contribute if their membership in councils is limited, or if councils are dominated by teachers, who to some degree were to be subject of oversight of the councils in the first place.

4.10 The evaluation also found that the Bank's monitoring system did not adequately identify the risks in implementation, and when it did, the appropriate corrective measures were not taken. The key example of this is the Bank's reaction to the opposition of teachers and other groups to the reform. The Bank's normal supervision systems—PPMR, CPR reviews, mission memorandums—rarely identified the problem, and when they did, there were no specific measures to deal with the risk or to attenuate its impact on development. Indeed, the problem was treated as exogenous to the Bank's scope of intervention: it was treated as a problem that the country would have to address on its own. The case of the delivery of textbooks is another case in which no particular measures were taken to deal with the problem.

4.11 Regarding results, the evidence shows that education efficiency improved during the period, with a marked increase in enrollment and a fall in age-for-grade gap. Furthermore, preliminary evidence based on household surveys suggests that the differences in these measures of internal efficiency ethnic indigenous and other groups has lessened, with the former making considerable improvement over the past 4 years. For example, in terms of enrollment, recent estimates show almost full enrollment at primary today, and at comparable levels across ethnic origin. The dropout rate also fell, from a preprogram estimate of 10% to a 6-7%, depending on region.

4.12 Despite the improvements in internal efficiency metrics, a fundamental limitation to what can be learned from PRE stemmed from the failure of student testing. To its credit, PRE attempted to implement a student testing system through SIMECAL. The working group was funded with project resources, and carried out a number of student tests. However, SIMECAL was never able to carry out its mandate of systematically assessing student performance, due to a combination of mission drift and to the lack of credibility in the group's results. As of the publication of this report Bolivia will have been without data on student performance for five years.

4.13 The evaluation also looked at the Bank's efforts to document and assess the effectiveness of its intervention over the years. In this regard there was an effort in 2002, but lacking baseline data or a proper comparison between program and non-program participants, the results were ultimately unconvincing. The other efforts by the Bank were descriptive assessments of the implementation of the program, including a tracking of teachers trained, textbooks delivered, etc. In particular, the second phase of the program had very little additional analytical work, and little in the way of assessing the effectiveness of the PRE's different components of phase I. There were also no rigorous evaluations of effectiveness financed by the Bank.

4.14 The evaluation documented two external assessments of the program's effectiveness—both assessments of the bilingual education component (EIB). In both cases the finding is that the EIB does seem to improve internal efficiency, but that the result is very context-dependent. In one instance the finding is that Aymara EIB has worked better, while in the other the finding is that in mixed language environment (i.e. some Spanish is spoken) the impacts are much greater than in monolingual environments. In any case, these studies, along with the aggregate macro results, suggest that there are parts of the education reform that did work, even if the Bank has not been able to identify and promote these successes with its client.

4.15 The new government is critical of the reform process, but they are also open to both IDB involvement and funding of the sector. This critical view has coincided with the cancellation of the Bank's second loan and of the Bank's apparent exit from the sector. This is due to differences between GOB and the Bank, but also to the availability of sector financing with grant funds.

4.16 The new government has proposed a new policy agenda, which emphasizes alphabetization of adults, rural boarding schools, new curricular reform, and distance learning. At the time of this review the implementation of the GOB education strategy was still beginning. It is also clear that there is a need for technical expertise in this implementation, and that the Bank could have a role in this, given its experience in the sector. There is also a need in the sector to strengthen the new agency which will eventually implement measurement (testing) in education. The agency has been restructured and renamed on more than one occasion, but has yet to implement student testing. Here also there is a need for support of the sector, particularly given the Bank's experience in student testing in other countries (and in Bolivia).

4.17 Despite the Bank's experience in the sector, the fact that the Bank has no loan on the ground has removed the principal instrument of dialogue between the Bank and Bolivia in the sector. It is clear from the conversations with GOB that they have little contact with the Bank regarding the sector, either at the country office or from headquarters. Accounts of these interchanges suggest that they have been few and unproductive. It is also unclear what the Bank has brought to the table, either in terms of proposals, knowledge regarding its part results, or recommendations. The lack of proper dissemination of PRE results, even if only at the internal efficiency level, cast doubt regarding the Bank's own awareness of the successes and failures of PRE. If the Bank should to continue having a presence in the sector—and it is a recommendation of this report that it should—it will have to develop new methods of dialogue, it will have to be more engaging, and it will have to bring value to the table.

B. Internal revenue and customs

4.18 The recent history behind both customs and internal revenue in Bolivia is characterized by heavy leadership and influence of the Fund and the WB. However the IDB contributed heavily and continuously to the effort. In customs the Bank approved a TC loan, followed by an investment loan. In the case of fiscal reform the Bank had 4 operations approved since the mid 1990, all dealing with administrative, management, and organizational issues of the reform. The Bank also worked with non-lending products, both at a time when Bolivia was in arrears (and ineligible for lending) as well as with TCs in support of regular investment lending. In both sectors the operations were in concert with WB and Fund operations.

4.19 The main conclusions of the evaluation are that the lengthy engagement produced disparate results in both implementation and outcomes in customs and in tax administration.

4.20 When the IDB approved the first loan for Customs in the 1990s the institution faced severe challenges. Human resources were characterized by cronyism and paternalism; the collection of revenues was perceived as corrupt, and in any cases the levels of collections were low; customs procedures were notoriously slow, and users perceived the institution as a significant cost of doing business; the institution lacked appropriate information technology systems to track both revenue and processes. The fact that the institution had been the subject of prior unsuccessful reform attempts set the context for the IC's involvement in Customs.

4.21 In addressing these issues the program contained five main components. The first was a policy component, in which the judicial system would be adapted to allow for a more streamlined prosecution of customs violations. The second was the implementation of a risk-based auditing system, in which cases would be systematically assessed and classified as to their risk characteristics. The third component was an IT component for the implementation a system to track merchandise and processes. The fourth component was the establishment of an internal ethics office, to deal with issues of corruption inside Customs, and the last component was the implementation of a better system for merchandise valuation, bringing Customs in line with WTO standards.

4.22 The Bank produced a mid-term evaluation of the loan in 2004. The evaluation was highly critical of the project, and highlighted the problems in execution, changes in project components, and lack of information on results. Three of the components have either been altered from their original intent, or had serious execution problems. Despite the progress in the justice component, which has included seminars, manuals and training, there have been to date no prosecutions. Likewise, the auditing component has not been implemented; audits are on ad hoc basis and are not based on a risk system, as originally planned. The ethics component also experienced execution problems. The ethics office was established but was shortly shut down in favor of a revamped institutional integrity office. Both in-country interviews as well as the mid-term evaluation found that the ethics office sanctions were ineffective, and that enforcement was ad hoc. The technology did execute, although there are criticisms as to the selection of the technology platform[10]. The execution of the valuation component is perhaps the one that has been most successful. All the performance indicators, related to training of personnel, were satisfactorily complied. The valuation procedures of WTO are currently active in Bolivia, although many aspects of this process need improvement, including the operational infrastructure, and the controls designed to detect arbitrary decisions.

4.23 Customs has also struggled with institutional challenges that were part of the reform, even if they were not addressed in specific Bank components. As part of the reform a new General Customs Law had been passed assigning Customs an independent governance structure composed by a five-member directorate, whose members were to be rotated gradually. The application of this Law deteriorated over time: the five-member directorate gradually unraveled, as the rules for substitution were not observed. These and other problems lead to the continued perception that the institution was being managed on partisan grounds. This perception was made worse by the Congress' failure to ratify Customs presidents. Another of the institution's problems stemmed from the loss of full financial autonomy, with a large portion of the institution's budget being controlled by the Ministry of Finance.

4.24 Internally there have also been problems with the organizational structure. The design of a new organizational structure still preserves a management structure with scarce definition of strategic and support areas, weak operative divisions and the need for mechanisms to facilitate coordination and communication within the organization. The implementation of strategic plans has been weak, without relevant indicators that allow evaluating performance. Customs also does not have a reliable management information system to guide decision-making.

4.25 The implementation experience of internal revenue was much better than that of Customs. The Bank's involvement with internal revenue over the period consisted of a TC loan for the improvement of internal revenue administration—which had been approved in 1999 (BO0196), a PBLs that dealt with the contingent liabilities of past pension reform, along with a Reimbursable TC for the same purpose (BO0213 and

BO225), and a performance driven loan to consolidate the results in internal revenue, approved in 2006 (BO-L1007). In terms of approvals in the current programming period the approved amounts sum to 80 million dollars.

4.26 The execution of the Bank's interventions were on the whole successful and sequentially logical. The first loan, known as PROFISI, was executed in coordination with the World Bank's efforts to modernize civil service through the PRI. With respect to internal revenue both operations had as their objective an autonomous, transparent, and efficient internal revenue system. As a result of the collaboration both the groundwork for the institution's reforms, as well as the Civil Service Statute required to move forward were set[11].

4.27 The experience with PROFISI was followed by a 2003 PBL centered on reducing forward costs associated with pension reform—including issues related to fraud—the accompanying TC. The operations in fact continued the implementation of PROFISI, by establishing a series of improvements in (i) improving the tax-payer registry; (ii) improve auditing, especially in the hydrocarbons sector; (iii) improve information services; (iv) expand and improve SIN's information technology system, going from a distributed system to a centralized model; and (v) develop training capacity of SIN's personnel, especially newly incorporated personnel.

4.28 The policy measures of the PBL were largely done, and the outcome targets—an increase in collections—were met. The experience of the PBL and the TC also show how the Bank was able to complement need for financing, while making technical expertise available for continuing sector changes.

4.29 the only caveats regarding the impact of the IC's activities in the sector are regarding sustainability. The Bank's activities showed that it was able to promote normative and legislative reform through a combination of technical cooperation and quickly-disbursing funds. However, the model is also predicated on the assumption that these normative and legislative changes are both sufficient and necessary conditions to achieve the goals of independence (of policy and financing) and autonomy, as well as the goals of a professional civil service. What the intervention did not identify are the conditions under which these assumptions can be thought to hold true—and particularly why they have not been previously and were in place at the time of the operation approvals.

4.30 The comparison between the results of internal revenue and those of Customs also show differences in performance. First, it is important to mention that the data on Internal Revenue is more complete and has been consistently tracked. It shows an improvement in collections over time, as well as a marked reduction in tax evasion, from over 40% to roughly 20%. In Customs the data show stagnation in terms of revenue, and actually a worsening of the service delivery metrics tracked as part of the WB's PRI program, at least for the dates that this data is available. There is no estimate of non-compliance of customs laws and of illegal commerce. Full results are detailed in the Annex.

4.31 The evaluation found several reasons that explain this disparate performance. The first is that in internal revenue there was a sustained commitment by all parties, not the least of which was the GOB, whereas in Customs this commitment was not present. In SIN the Bank, the Fund and the WB were well coordinated, and the activities were designed so that there would be few overlaps. Likewise, the supervision of the operation was also coordinated, and frequent. On the other hand, in Customs the evidence is that the World Bank and Fund eventually left the dialogue and left the Bank alone in a sector with execution problems multiplying.

4.32 A second reason is the appropriate use of Bank instrument, providing both technical value added and timely funds, in the case of SIN. It is also noteworthy that many of the early gains in internal revenue were derived from an operation that was very small in size. In Customs it is difficult to identify the specific technical inputs that were financed. In interviews the opinion is that, on the contrary, the demand for technical inputs, including an updating information systems, additional training among others, went unanswered.

4.33 A third explanation is that in Customs there was dissociation regarding stated and pursued objectives. In particular, objectives related to reducing the illicit trade of goods, or objectives related to corruption and transparency wore widely were not effectively pursued, while objectives relating to revenue generation were. This made it difficult to change the perception in country regarding the institution, and made it difficult to marshal support for the tough decisions regarding increasing the agency's efforts in the field, where it had (and continues to have) a weak presence. According to interviews this dissociation was, at least early on, was aggravated by the Fund, whose primary objective during the years of large fiscal deficits, was that of bringing revenue in line with spending.

C. Transportation

4.34 The IDB has been a ubiquitous participant and finance agent of the highway transportation sector in Bolivia. It has invested in projects, since 1990, in 426 million—roughly a fifth of Bank approvals. In terms of disbursement it has likewise been a fundamental contributor, with 340 million. This involvement took place across diverse different administrations. In the current CPE one project that has finished execution, the project connecting La Paz with the northern corridor, is reviewed in detail, as the project that is connecting the city of Santa Cruz with Puerto Suarez. The two projects are very different. One is a technically complex operation in the mountains, and the other is in relatively undifferentiated land. In both cases the projects had the financing of other agencies.

4.35 The sector in Bolivia is one that is rapidly changing. Unlike most other Bank borrowing countries, Bolivia has borrowed extensively for new construction; both projects looked at here are of this type. The source of financing is also changing. Whereas the Bank was the largest financing agent in roads only five years ago, today the CAF has that distinction. Also, the country's improved fiscal picture allows for more flexibility in financing investment. It is likely that Bolivia will increase its financing of roads in the years to come, so long as the macro-fiscal picture stays positive.

4.36 The central question to be answered here is essentially that of the Bank's value added in the projects reviewed. Has procurement been able to generate lowest cost construction for the country, and at a high quality? Have the Bank's environmental strategy in Bolivia been able to guarantee sustainable development in roads? Has the Bank been able to help Bolivia obtain the best results from its partnership, and has it been able to help the country to select road projects with the largest potential for development and integration?

4.37 Although cost is an essential consideration in managing for results, it is one topic that is rarely raised in the Bank's programming or in its individual programs in roads in Bolivia, the assumption being that procurement procedures will produce the best outcome. However, given particularly large construction bills paid by the highway construction authority (ABC), and given their concern regarding insuring against cost overruns, OVE analyzed the determinants of construction costs in Bolivia.

4.38 The evaluation's findings in the sector produce interesting findings with direct policy implications. First, in the case of Bolivia, the data analyzed suggests that international competitive bidding produces the lowest adjudicated costs. That means that projects that did not satisfy international bidding standards were on average more costly than those that did. However, the findings also show that final costs paid out to contractors are substantially higher than adjudicated costs. Average adjudicated costs, in per km terms, tend to be almost 170 thousand dollars lower than final costs. For LAC as a whole the pattern is similar. Thus, competitive bidding is certainly generating lower bids, it is unclear how much of these savings remain by the end of project execution.

4.39 The econometric findings are consistent with the findings in the two road projects analyzed. The importance of international bidding is shown in the case of the Santa Cruz project and the limitations of the same are shows in the Northern corridor program. In the case of Santa Cruz, different entities financed different tranches of the road—some with full international bidding, and others without it. The annex contains data on each segment, however, the results show that segments financed with international bidding were adjudicated at lower prices (461 and 537 thousand per km), while segments financed with limited bidding resulted in more expensive adjudications (680 and 735.thousand per km).

4.40 Even as the Santa Cruz project shows the advantages of bidding for project adjudicated costs, the case of the Northern corridor and Cotapata show how these costs are fully recovered by contractors. The Cotapata – Santa Barbara road is part of the Northern corridor. It is part of the road segment that connects La Paz with the province of Beni and with Peru. The road is considered to be important both for national integration purposes and as a mechanism to promote export growth with Peru and exports through Peru's pacific ports. The Cotapata segment was a Greenfield project, in the sense that the previous road to Santa Barbara was through a different route. The engineering studies done at the time indicated that a new road would be the only way to increase the width of the road, necessary for larger traffic use, and also be able to have a roadway open year-round. The terrain is extremely mountainous, and required a series of passes and bridges that made the project's cost estimates quite large, at 2.17 million dollars per km (1990 prices; more than 3 million in current prices).

4.41 An additional area in which the Bank can have value added is in terms of sector programming, prioritization of works, and sector work. Here the review found that the Bank's main assessment tool has not provided the necessary information to either assess project benefits, assist the country in identifying infrastructure impact on outcomes and integration, or prioritize among different projects.

4.42 The review also uncovered problems in the type and quality of technical work that is done in preparation of project economic evaluations. The Bank's main contribution to strategic development and results is based on the HDM4 model. As applied, the Bank's assessments have been based on identification of rates of returns for individual projects. Simulations conducted by OVE show that the results of these estimates are very susceptible to variations in both up front costs and future demand. The stochastic nature of these variables has not been adequately modeled in the economic assessments reviewed. Likewise, the estimates of model parameters have often been off the mark, both due to the lack of adequate sector work needed to derive model parameters and due to the lack of information regarding the distribution parameters. Overall, the evaluative finding is that although the inputs into the engineering and physical parameters required by the HDM4 appear to be adequate, the modeling of the economic portion of the model is not[12].

4.43 The evaluation also found that the Bank has not promoted or developed methods by which development of the road network can be prioritized, other than through the one-off assessments of specific road interventions mentioned above. Although the Bank contributed to the identification of priority corridors (in the context of IIRSA), the review did not find any analytical instrument or other technical input by the Bank that would help to prioritize among investments in the roads sector. There is a current need in Bolivia for this type of prioritization.

4.44 With respect to sector results, the review found that the Bank has not set forth adequate outcome indicators, nor has it contributed to the analytical underpinnings that are required to assess the development effectiveness of sector investments. The Bank's indicators, in the projects reviewed, are typically defined as reduction in transit times due to improvement in physical infrastructure, or changes in utilization. Indicators related to outcomes, such as local development, growth, etc. have not been identified. Regarding the indicators that are identified, estimates of time savings or changes in average speed as a result of improved road conditions have been accurate and have on the whole been met. In terms of utilization, the estimates used in projects not only have been met but have been met by a wide margin. Exceeding expectations regarding road utilization is good news for the roads assessed, but it also highlights the deficiencies in the current forecasting methodology used in the sector.

4.45 Although the Bank has reported on changes in road utilization in its PCRs, it has not attempted to identify the impact of road improvements on either utilization or on development outcomes. The evaluation found a lack of sector work—by the Bank or by others—in assessing the impact of infrastructure on local development. This is due, in part, to the data requirements and methodological challenges associated with this line of research. However, this is not to say that it cannot be done or that it is not important.

OVE's assessment of road utilization and road conditions shows that infrastructure has had a large impact on utilization. Furthermore, OVE also found that these impacts exist in contexts of both poverty and wealth, and in both highly populated and less populated areas, and in both developed and less developed municipalities. Indeed, the findings suggest that there is not necessarily a tradeoff between integration and development in prioritization of road investment. The data did not allow an assessment of the impact of road improvement on outcomes, such as export growth, poverty, etc.

4.46 Beyond the results of road investment on utilization, the econometric results raise two issues. First, it is possible to look at transportation impacts in country and across time in LAC. Prior attempts at addressing the impact of infrastructure have been cross-country or have been based on comparison across states in developing countries. Although the nature of these interventions present certain methodological and practical difficulties, these assessments are feasible. They are also necessary if one is to plan public investment according to results on the ground. Second, the review done as part of the empirical assessments shows that there is very little done in this area in Bolivia—by country entities, by the Bank or by other agencies.

4.47 The Bank's value also includes its ability to have a value added in producing good diagnostics and in vetting engineering work done by contractors. Here the evaluation found that the Bank's value has not been demonstrated. The case of Cotapata is illustrative. Structural problems emerged during execution that had not been anticipated during the design and planning phase, which required both the construction of the San Raphael tunnel and the construction of stabilization structures. These problems were (and continue to be) a source of additional financing requirements for the road segment, and have raised questions regarding the Bank's ability to properly identify and monitor complex engineering issues. Although an assessment of the specific failures are beyond the scope of this review, evidence from interviews and from Bank documents suggest that the Bank has not paid sufficient attention to the quality of project diagnostics, both with respect to engineering and to environmental issues. Furthermore, OVE's review shows that the Bank's reporting regarding project costs has lacked a country focus, in the sense that it does not look at full costs to the client, but rather costs associated with the specific loan, regardless of additional financing that may be needed to accomplish the loan's objectives.

4.48 Cotapata underlies the need for high quality technical engineering work, and also highlights the inherent asymmetries in capacities and of information between the regulator and the contractors. In this instance the evidence suggests that the Bank acted to attempt to correct the problem once it materialized—both by hiring the technical review of the San Rafael tunnel and in approving a second loan to fix the problems in the first loan. However, the evidence reviewed suggests that the Bank's current mechanisms of review—essentially consisting of the non-objection of the country specialist—are inadequate to identify and correct problems before they materialize. Indeed, in interviews COF specialists indicated that their time and resource constraints imply that they are unable to verify or otherwise emit a technical edict regarding the content of the contracts and assessments that cross their desks, and that their role is mainly one of verifying that procedural steps were taken as required by the Bank norms.

4.49 The last area in which the Bank can have value added is in the area of environmental safeguards. Here the Bank's approach was innovative. In order to deal with issues of coordination between the IC, and in order to apply the same standards, compensation, and safeguards throughout the construction between Santa Cruz and Puerto Suarez, the Bank and country agreed on a single loan to finance the mitigation supervision requirements identified in the strategic environmental assessment. The Bank was also considering a similar approach in the Northern Corridor, although this has not materialized as of the writing of the CPE.

4.50 Although the implementation of the program is still in initial stages, the evaluation found serious problems which will likely limit the value added that the Bank can have in this case. First, the program's effectiveness was predicated on it being jointly executed with the construction efforts on the ground. In other words, as construction activities progressed, so would the mitigation and supervision activities financed by the program. However, given that the program has lagged behind construction—and indeed in the case of one of the segments, the road was finished before the program initiated its activities—program activities designed to be executed ex ante will either have been undertaken from other funds or will not have been executed.

4.51 Second, the intervention design was simply to complex. The program followed closely the recommendations of the strategic evaluation, without regards to weather these recommendations could actually be implemented with the institutional capabilities available. This generated an unreasonably large number of co- and sub-executors, and which in turn demanded a high degree of coordination. Without a detailed institutional assessment delineating the capabilities, resources, data capacity, and on-the-field capacity of the different agencies involved the Bank was not able to properly identify program risks.

4.52 Third, the program suffered from both political and institutional changes. The institutional changes consisted of the reorganization of the country's natural resource and environmental authority's organization. This lead to the transferring of the executing unit from the GoB to the *Prefectura of Santa Cruz*. The necessity to change the first program administrator due to performance issues also hindered implementation. However, one of the most important risks that materialized was the polarization of the political environment. This was particularly important as the department of Santa Cruz became the standard bearer of the opposition departments. According to interviews this has impacted the celerity with which necessary interactions are processed, and in general has impacted the ability of national and department authorities to work together.

4.53 Lastly, the evaluation found that the Bank's monitoring and supervision was inadequate. Although several auditing and supervision mechanisms were identified as part of the program, they were by and large not implemented satisfactorily. This included both the external audit, which was done—but was deemed unacceptable by the Bank, as well as the lack of supervision by Headquarters (dedicated semi-annual HQ missions were called for but were not undertaken).

V. CONCLUSIONS

5.1 Bolivia is currently immersed in a process of political and civic change. This has produced a climate of uncertainty both for Bolivia and for the IC which has been ubiquitous in the country for so many years. The CPE thus centred the Bank's response in a period of change and uncertainty. In this sense, the CPE recognizes the difficulty in programming and working in Bolivia under such conditions. Findings have to be considered under this optic.

5.2 One of the main findings of the evaluation is that that the Bank's engagement throughout the period has been to react to in-country developments. This was seen clearly in the Bank's programming. Here the Bank responded to fiscal and political changes in the country, but only after these had taken place. A review of the Bank's country strategy shows that it did not incorporate the new political environment or the new constituencies that emerged in this environment in its programming. The strategic response to these changes was to maintain the old strategy, only appending it with a short-run crisis scenario. Given that the scenario coalesced into a more permanent change, the strategy was of little use to the Bank in its negotiations with the new government.

5.3 The evaluation also found that in the implementation of a new program, the Bank's engagement was not results focused, nor did it bring a substantial body of analytical or other inputs to address the new government's priorities. The Bank conducted a series of programming and review missions following the strategy's approval. However, the Bank had little in the way of technical and sector work to address the issues of concern to the new administration. Likewise, when making decisions regarding portfolio operations to be altered or cancelled, the Bank did not provide GoB with an assessment of program effectiveness; it was not results focused. That much said, the Bank did attempt to align the portfolio with government priorities. It also explicitly used execution data as a way to prioritize among operations.

5.4 In terms of implementation, the evaluation found that the Bank faced a difficult environment in which to execute, and the poor metrics throughout the period reflect this. However, the evaluation also found that in general the Bank's engagement effort after the crisis and during the first years of the new administration were more subdued. There were fewer missions, fewer non-financial products, etc. The evaluation also found that the Bank's emphasis switched after the strategy's approval toward a strategy heavy in infrastructure.

5.5 At the sector level, the evaluation found that the Bank's success in the sectors was related to its level of engagement and to the value added that it brought. In education the Bank's early involvement was engaging. It was one of the sector's leaders and one of the proponents of reform. However, in the post-reform (post PRE) period the Bank stepped away from that role. It has not approached the new GoB with sector recommendations, proposals, diagnostics, or other sector work that would assist GoB in the implementation of their new education policy. It has also not been able to adequately discuss the results of the reform with the new sector leaders, given that it has not assessed or documented these results. In internal revenue and customs, also, the level of engagement and value added were highly correlated with sector results. The technical *cum* financing role in internal revenue is particularly important as a success story for the Bank.

5.6 In transportation the Bank has certainly had value added in terms of financing, as it has been and continues to be one of the most important sources of funding in the sector. It is likely that the Bank will continue to find space to work here, even if it is increasingly facing competition from other sources of financing, including the CAF internationally, as well as financing with government revenue. This competition highlights the need for the Bank to generate new sources of value added. The evaluation found that here the Bank's value added has fallen short in addressing some of the fundamental priorities of the current ABC administration. It has had a limited role in addressing cost overruns and engineering issues, in dealing with associated risks in the sector, in assessing development results in the sector, and in promoting environmental safeguards and mitigation. In the last case, that of environmental safeguards and mitigation, a lack of adequate supervision by headquarters is to be noted.

5.7 In customs and internal revenue the evaluation found two different stories with different outcomes. In customs there has been limited commitment to dealing with the sector's contentious problem of illicit imports and exports. This difficulty, along with a limited engagement, both by the Government and by the IC (including the Bank), has contributed to the poor sector results. Targets have not been met in the sector, both in terms of revenue and in terms of service levels. This is in sharp contrast to internal revenue, where the Bank's involvement was more intense. It particular, the Bank used TC and non-lending resources to make technical inroads and lay the foundation for the tax administration reforms undertaken. This engagement not only generated more lending in the sector, it also generated exceptional results, reflected by lower tax evasion and increased revenues.

5.8 The Bank's success in Bolivia toward the future is likely to depend critically on its ability to provide the country with timely and high quality value added. The growth of alternate sources of financing has placed increased pressure on the Bank to provide the country with high quality inputs, beyond its lending. The review shows that the Bank can do this, and has done this. It has not, however, done it systematically.

ENDNOTES

[1] The positive macro-fiscal scenario was highlighted by the latest article IV consultation between the IMF and Bolivia. The consultation resulted in the IMF's strong endorsement of the Bolivian macro program. Some issues with the financial sector were highlighted, but overall the IMF's conclusions were very laudatory.

[2] The IDB adopted a debt relief initiative along the lines of the MDRI. For the purposes of brevity, they shall be treated synonymously in the text even if the IDB approved its debt reduction at a later date.

[3] Note that the terminology "rationalization" does not denote a value judgment as to how rational the changes were; rather, it is in keeping with Management's nomenclature.

[4] Although no formal decision was documented to this regard, the dynamics of sector shares during the four years shows that the fastest growing sectors—in terms of active projects—were roads (+17.5%), water and sanitation (+5.9%), and Modernization of the state (+3.7%), being that in the last category the approvals were in internal revenue, pre-investment, and systems to track spending. On the other hand, the sectors with the largest contractions in share were Energy (-10.7%), Education (-8.3%), Telecomm (-3.7%), Microenterprises (-3.1), and Agricultural Development (-1.8%)

[5] See *Ayuda Memoria* of the April mission. The programs to be changed were Epidemiological Shield, Education reform II, PYMES, Housing support, External Trade and Commerce Support.

[6] This interpretation is also consistent with meetings held with VIPFE, in which they also indicated that the Bank's response to VIPFE's request that the Bank provide VIPFE with information on project performance that it may have was to provide metrics on project age, disbursement history, and Bank execution flags (PAIS, etc.).

[7] After two years of negotiations, the concession was terminated in January of 2007. The shareholders agreed to accept compensation below the book value of their equity, and the lenders (IDB, IFC and CAF) agreed to accept GOB bonds as payment of the outstanding loans to the concessionaire. A state-owned company has taken over responsibility for the water and wastewater services in these cities.

[8] The Bank approved a US$40 million A/B loan; however, only US$30 million of the US$37 million A loan was disbursed. The proceeds were used to partially finance a fiber optic network for domestic and international long-distance calls. The root of the execution difficulties were the financial difficulties of the firm in 2005, which caused the Superintendence (SITTEL) to intervene. Although the intervenor made a number of recommendations, non-compliance of which was the basis to terminate the Company's concession, AXS Bolivia did not comply with the recommendations and SITTEL did not take further action. In terms of consequences for the Bank, AXS Bolivia and one of its holding companies filed a lawsuit against the Bank in Bolivia, which resulted in the Bank filing a lawsuit against the shareholders in New York and against the Company in Bolivia. A settlement was reached with the AXS Bolivia shareholders, the details of which are not public. As a result, the litigation in Bolivia and New York has been terminated.

[9] During the March mission the CBO assisted OVE's mission in organizing a discussion with the IC. During the meeting bilaterals were particularly critical of their experience in cooperating with the IDB. In the case of a loan to promote agriculture innovation and development in particular, the conclusion was that the IDB did not consult with them, that it undertook unilateral action regarding changes to the program, and was not flexible regarding procurement procedures. The Nordic countries were also critical of the Bank's stance in Education, where they expressed the view that they were never treated as full partners in the reform; they see their own protagonist role now as somewhat of a vindication, now that the IDB is no longer involved in the sector. On the other hand, regarding the loan to promote land titling, the cooperation with the Dutch has been more fruitful.

[10] The software and system were chosen based on cost considerations over the French SOFIA system. It is not a mainstream application, cannot be incorporated into other systems, is user unfriendly, and is increasingly difficult to maintain. Partly owing to these factors the system is used mainly to register transactions: it is not integrated to other systems, which has led to the construction of satellite modules to answer particular needs; and it is difficult to exploit its information, which hampers the capacity to produce managerial information, essential for decision-making.

[11] According to in-country interviews these were the most important accomplishment of an admittedly small operation. However, the operation also was successful in improving the auditing capacity of the SIN. The strengthening of the audit activities now generates a greater concern in tax-payers to comply with the tax law. And SIN has organized a number of promotional campaigns to publicize different aspects of tax concerns, and it has improved its communications channels, including a toll-free phone line, a mailbox with suggestions and complaints, and the webpage.

[12] The review also found that in the case of the Cotapata project very liberal estimates regarding benefits from road closures were necessary in the HDM4 projections. OVE could not replicate the estimated benefit flows using median estimates of cost, wait time, and other variables.