

# BOLIVIA

## **Poverty Reduction Strategy**

Prepared by the Bolivian Authorities

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### **SUMMARY**

#### **I. INTRODUCTION**

1. After 18 years of democracy and 15 years of structural reforms, Bolivia has made important strides in consolidating its institutions and its economic stability. The process of change is not over, however, there is still a need to pursue the efforts toward greater equity that will make it possible to reduce the high levels of poverty prevailing especially in rural areas.
2. Growth since the later 1980s was unable to reverse the trend toward development based on the exploitation of natural resources, it did not improve competitiveness, and had almost no impact on the diversification of exports. This meant that regional disparities were maintained, the differences between urban and rural areas deepened, and progress toward national integration hampered.
3. The poor are highly vulnerable to natural disasters and economic and social changes, social welfare programs are non-existent, and there are almost no risk-management mechanisms. Despite the changes resulting from the decentralization and Popular participation programs, the poorest segments of the population, particularly indigenous peoples, the traditional forms of organization known as the “Ayllu,” and rural communities are still marginalized from decision-making, do not participate effectively in the allocation of resources, and are not adequately represented politically. This seriously calls into question the foundation of Bolivia’s democracy and governance.
4. Considering the need to reduce poverty, the government has consulted with civil society through the National Dialogue in order to reach agreements on policy actions in a transparent and focused framework.
5. The results of the Dialogue contributed significantly to the development of Bolivia’s Poverty Reduction Strategy, which was presented to civil society for discussion. With a view to fine-tuning the Strategy, a workshop entitled “The Government Listens” was organized, and the changes suggested by civil society were incorporated.

6. The Bolivian Poverty Reduction Strategy (BPRS) constitutes a framework for focusing policies on poverty reduction that, based on the premise that there must be joint responsibility between the State (at the central, departmental, and municipal levels) and civil society, proposes actions to aid the poor based on the demands expressed by the people in the conclusions of the National Dialogue, furthering decentralization through the delegation of authority in the provision of basic services and the transfer of additional resources to facilitate efforts to provide services for the poorest segments of the population.

7. Thus, the BPRS is a dynamic, flexible, and living document, making it possible to adapt and/or fine-tune various programs to pursue the central objective of poverty reduction. By recognizing the way in which society and the political system have joined forces to work together, the BPRS is endeavoring to establish the fight against poverty as a State policy to be pursued on an ongoing basis and strengthened by successive government administrations.

8. The actions presuppose a link between economic and social policy, recognizing that economic growth depends on advances in social policy and that, in turn, it is possible to build upon these accomplishments as the economic context improves. Poverty reduction requires deliberate government action if effective results are to be achieved.

9. The sustainability of the proposed actions are contingent on improvements in the institutional framework, modernization of the executive and judicial branches of government, and the fight against corruption. The results will be achieved by allocating public resources to programs with the greatest impact on poverty reduction. A high rate of implementation of public investment must be maintained and resources must be budgeted for recurrent expenditure to ensure the sustainability of the economic and social infrastructure created.

10. Under the BPRS, four components are established for reducing poverty: generation of opportunities, particularly for rural areas and marginal urban areas, increasing capabilities by placing emphasis on education and health, increasing security and protection, and promoting increased participation and integration. In addition, it establishes three cross-cutting themes aimed at promoting greater participation by indigenous peoples and ethnic groups, and includes gender and environmental topics.

#### **A. Poverty in Bolivia**

11. Bolivia has one of the highest poverty rates in Latin America. In 1992, data from the Population and Housing Census showed that 70 percent of the population had unsatisfied

basic needs; and in the late 1990s, 63 percent of the population was recorded as having family incomes below the poverty line.<sup>1</sup>

12. Social policies implemented during the 1990s promoted increased investment in human resources, and particularly in the areas of education, health, and basic sanitation. Decentralization and the Popular Participation Initiative helped bring about a redistribution of resources toward poor areas, established social-control mechanisms, promoted the strengthening of institutions for the decentralized levels of administration, and encouraged greater participation by society.

13. Social investments were accompanied by a greater need for current expenditure in the social sectors. From 1995 to 1999, social expenditure increased from 12.3 percent of GDP to 16.5 percent of GDP. However, the level of social expenditure in Bolivia (35 percent) is still less than the average for Latin America as a whole (41 percent). Increases in social expenditure are limited by insufficient tax revenues and growing spending needs and the high cost of the pension system reform.

### **The main determinants of poverty**

14. Urban poverty is linked to the problems of employment and low human capital on the part of workers. On average, 85 percent of urban family income is derived from labor. The growth in labor income, particularly in the entrepreneurial and semientrepreneurial sector which has experienced growth rates around of 5 percent a year, stands in contrast with real family sector incomes (through self-employment), which have remained virtually stagnant. In the 1990s, the shifts in wage disparity were explained mainly by the fact that there was greater demand for skilled labor in more advanced sectors of the economy, while those sectors requiring unskilled labor saw incomes lag behind.

15. In rural areas, poverty is explained in large measure by the low productivity of the farm sector and the low prices that farm products fetch in the marketplace. Productivity is affected by the use of small-scale production techniques, unskilled labor, water shortages, a lack of basic production infrastructure, the high cost of capital, lack of definition of ownership rights with respect to the land and natural resources, and other factors that prevent the optimum utilization of the land. Attention has been drawn to the existence of originary or native communities (pueblos indígenas originarios) in the lowlands, who still depend on a subsistence economy based on hunting, fishing and gathering; these populations and other communities suffer from problems of access to natural resources and low productive capacity.

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<sup>1</sup> Studies conducted by ECLAC using a comparable methodology show that Bolivia is one of the countries having the highest incidence of poverty in the region, along with El Salvador and Honduras (22 points above the average for Latin America as a whole).

16. The lack of road infrastructure results in high transport costs, which in turn have an impact on the value of farm products. This hampers the sale of goods and prevents small producers from expanding their operations. It also gives rise to high transaction costs in sales networks.

### **B. The Contribution of the National Dialogue to the BPRS**

17. National Dialogue 2000 was successful in enlisting the support of civil society; furthermore, it made it possible (from the perspective of civil society) to identify problems standing in the way of reducing poverty, and to advance proposals for overcoming those problems. This process contributed to the development of participatory democracy, and strengthened relations between civil society and the political system.

18. National Dialogue 2000 was organized around three agendas: social, economic, and political. Broad participatory mechanisms were set up by means of regionally oriented discussion groups and workshops; these forums originated from the municipal and sectoral levels upwards and embraced various segments of Bolivian society. It is probably the most innovative participatory event in Bolivia's modern history to be undertaken and organized by the State.

#### **Results and agreements reached**

19. In the Social Agenda, agreements were established in regard to: (i) the establishment of financial, development, and promotion policies for the benefit of small producers; (ii) product marketing systems; (iii) technical assistance and production training; and (iv) the construction, maintenance, and improvement of roads and irrigation systems. The chief aim of this exercise was to support microenterprises and small businesses, and to improve the production infrastructure.

20. The actions agreed upon in connection with improvements in the education, health, and basic sanitation sectors had to do with the following areas: (i) the provision of additional infrastructure and equipment; (ii) skilled human resources; (iii) high priority for the allocation of public resources; and (iv) institutional strengthening, and especially the strengthening of the management of the various public institutions involved in the work of each sector.

21. In the political and institutional areas, the following points were proposed, although they did not take the form of agreements: (i) the streamlining of the bureaucracy; (ii) the establishment of a mechanism, through participatory means, for the equitable distribution of the resources of the National Treasury; (iii) the instituting of a results-oriented approach to management and the institutionalization of public posts; (iv) the need for more forums in which stakeholders can participate in the preparation of departmental plans, and enhanced flexibility with respect to the counterpart resources of prefectures and municipal

governments; and (v) the implementation of the Popular Participation Law [*Ley de Participación Popular*] and the modification of the Law on Government Administration and Control (the SAFCO Law) so that it can be applied at the municipal level.

22. It was agreed that the resources received as external debt relief (HIPC II) would be administered by the municipal governments, and that the transfer of resources would be taken care of automatically through the banking system. Seventy percent of HIPC II resources will be distributed on the basis of poverty indicators, and the remaining 30 percent will be apportioned among the nine departments in an equitable manner, while within the regions the distribution will be based on poverty indicators.

23. It was agreed that the Catholic Church would participate in establishing community supervision at the national and departmental levels. At the municipal level, it was proposed that Vigilance Committees would serve as the bodies performing social control functions.

24. The *Economic Agenda* drew together the results of the sector workshops and producer round-tables, on the basis of which the necessary actions to improve the situation in the different productive sectors were proposed. The following were suggested as ways to promote production: (i) increased research with a view to improving competitiveness; (ii) technical assistance, training, and technological innovation; (iii) market development; (iv) the creation of institutional and legal framework appropriate to the needs of the production sectors; and (v) an increase in the proportion of public investment, and the updating of operating fees and charges with a view to improving the quality and coverage of infrastructure for the provision of services to the production and tourism sectors.

25. In the area of finance, it was agreed that services tailored to the needs of production, with a view to broader regional and sectoral coverage, were needed. In the area of international economic relations, attention was drawn to the need for a trade policy that established a legal and regulatory framework for domestic foreign trade, and of market. In the area of economic regulation, it was proposed that a program be carried out to rationalize bureaucratic procedures, and that appropriate legislation would be implemented to facilitate greater transparency and provide for increased competition in all sectors.

26. In order to assure sustainable development, it was recommended that environmental legislation should be made compatible with local and regional development requirements, and that there was a need to establish regulations to implement the Environment Law [*Ley del Medio Ambiente*] and to restructure production systems to bring them into line with environmental legislation.

27. It was established that there was a need to harmonize and simplify labor legislation, maintaining worker protection provisions while laying down clear rules to provide suitable conditions for promoting employment. It was suggested that labor legislation be modernized and that microenterprises and small businesses be brought more fully within the framework of the law.

28. The *Political Agenda* is an input that will be used to help define the institutional framework for the fight against poverty. This process brought together various sectors of civil society, the political system, and representatives of the State at the local, departmental, and national levels to examine issues relating to democracy, transparency, and citizenship. In this consultative process, issues were raised in regard to deepening democracy, and broadening the scope for participation and the exercise of full citizenship. Furthermore, there was discussion of the need to introduce institutional reforms to make the fight against corruption more flexible and more effective.

29. The comments and contributions of civil society were collected in the Seminar/Workshop entitled “The Government Listens” and these were incorporated into this latest version of the Strategy.

### C. The BPRS’s Proposal

30. The objective of the BPRS is to reduce poverty by means of specific economic and social policies, placing particular emphasis on the neediest segments of the population and providing them with better access to markets, improving their capabilities, supplying them with basic public services, increasing their social protection and security, promoting citizen participation and equal opportunity.

31. The BPRS comprises four interrelated strategic components that serve to guide the actions to be undertaken in the fight against poverty. They are:

- **Expansion of employment and income opportunities** by supporting and promoting productive capabilities, particularly of small urban agricultural producers, fostering rural development through greater investment in the productive and marketing infrastructure, and supporting microenterprises and small businesses and developing microfinance.
- **Capabilities building** by guaranteeing improvements in the quality of primary education and preventive health care services, and working toward improved access to adequate housing.
- **Increase security and protection for the poor** by protecting the most vulnerable segments of the population—boys and girls, old men and women, the victims of natural disasters—and by taking steps to improve risk management.
- **Promotion of integration and social participation** by providing incentives for such participation so as to deepen the Popular Participation and Decentralization initiatives.

32. In addition, the BPRS includes actions to promote greater equity in favor of **ethnic groups and the indigenous peoples, gender equity**, in addition to the **sustainable development of natural resources in such a way as to preserve the environment**.

33. The BPRS provides an **institutional framework** for poverty reduction emphasizing the campaign against corruption, creating a more competitive environment, reducing uncertainty, and promoting the allocation of resources within a context of decentralization in regard both to decision-making and to resource utilization.

34. High-priority actions to be undertaken to reduce poverty have been identified. These priorities show the critical path of the actions required in the short and medium term. In the short run, prioritization will allow for the enlargement of income-generating opportunities for the poor and will secure resources that can be used to protect and increase investment in human capital.

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

#### **(i) *Promoting rural development***

35. Reducing rural poverty is one of the BPRS's greatest challenges. Rural development will be promoted by creating appropriate economic, social, and institutional opportunities to increase the productive employment and income opportunities of this part of the population.

36. In order to achieve this objective, the BPRS has established the following as priorities: (i) increasing the production infrastructure by building and maintaining local roads, building and maintaining irrigation and microirrigation systems, establishing and maintaining electric power systems, and increasing access to telecommunications; (ii) expanding and improving access to land; (iii) increasing competitiveness; and (iv) diversifying nonagricultural employment. The BPRS also seeks to promote greater participation by the private sector, particularly microenterprises and small businesses, in rural development.

#### **(ii) *Creating incentives for the development of microenterprises and small businesses***

37. The strengthening of microenterprises and small businesses will make it possible for them to be competitive and self-sustaining, and generate stable and productive sources of labor, thus contributing to economic growth.

38. To achieve these objectives and facilitate the effective integration of microenterprises and small businesses into the nation's production structure, the BPRS will support and strengthen the Microenterprise and Small Business Development Plan, which is intended: (i) to create a competitive environment within which they can pursue their activities; (ii) to promote the development of a market for nonfinancial services tailored to the sector's needs;

and (iii) to develop the capacity of public and private organizations providing support to microenterprises.

**(iii) *Developing microfinance***

39. The support to be provided for microfinance will help to build an institutional environment conducive to the development of the urban and rural production sector. In Bolivia, the problems associated with supply of credit are mainly attributable to the limited coverage provided by microfinance institutions and the absence of a regulatory framework for the development of financial entities in rural areas. The problems associated with the demand for credit are primarily traceable to the characteristics of credit applicants and the conditions they face in terms of production levels and the marketing and distribution of their products.

40. To overcome the lack of access to credit in urban and rural areas, the BPRS proposes: (i) to diversify and expand microfinance coverage in urban and rural areas that are not served; (ii) to strengthen the institutional and regulatory framework and broaden the pool of potential borrowers and investors among small producers in urban and rural areas; and (iii) to improve the quality of the supply of microfinance, particularly credit.

**(iv) *Providing support for technical assistance***

41. Support for research and technological innovation is tied directly with access to information and the dissemination of information, which in turn makes it possible to reduce transaction costs, enhance productivity, and in general increase the efficiency of investment in technological assistance. In rural areas, support will be provided for technical assistance through the institutional strengthening of the new technological innovation system and the mixed public-private foundations (SIBTA) being set up in conjunction with it. In urban areas, support for technical assistance will be channeled through the strengthening of the business development services to be set up as part of the SAT and through the National Microenterprise and Small Business Development Plan.

42. Specific actions to support technical assistance in urban and rural areas will be geared to promote the provision of technical assistance and training by the private sector, establishing an information system to link technical-assistance supply and demand, developing an integrated technical-assistance system within the framework of the SIBTA, and implementing business development services to assist microenterprises and small businesses.

**(v) *Expanding road infrastructure***

43. If poverty is to be reduced, a fundamental requirement is that there be a road system in place that will make economic development possible. Proper road infrastructure is a catalyst for commercial activity, allows access to essential products and hence enables the



development of the most depressed communities, generates employment, and facilitates access to essential services.

44. Strategic actions under the BPRS to expand the road infrastructure focus on implementing the Master Plan for Transportation [*Plan Maestro de Transporte*], increasing investment in the basic highway system, establishing incentives to encourage participation by the private sector in highway construction, completing and implementing the regulatory framework, and creating an institution that manages its resources effectively and transparently.

**(vi) *Expanding income-generating opportunities for Bolivian citizens as holders of assets***

45. The Law on Property and Popular Credit [*Ley de Propiedad y Crédito Popular*] creates two benefits with the resources of the Collective Capitalization Fund [*Fondo de Capitalización Colectiva*- FCC] from the capitalization of public enterprises: Bolivida and Popular Actions [*Acciones Populares*- AP]. Bolivida is an annual benefit paid to those individuals who were over 65 as of December 31, 1995 and constitutes part of the social safety net. Popular actions are transferable trust certificates that will be distributed to all Bolivian citizens who on December 31, 1995 were over 21 and under 50.

46. In terms of generating opportunities for the poor, given that the AP's can be used as collateral for microcredit (be it individual or between various microenterprises or individuals), this facility will result in more equitable access to credit. Credit will in turn increase the possibilities for generating or expanding microenterprises, particularly in rural areas, given the difficulties which small producers in these areas confront in providing collateral.

**Developing the productive capacities of the poor**

**(i) *Improving the quality of education, and access to education***

47. In the strategic actions to be undertaken and the allocation of resources, priority is assigned to the primary school level, while keeping attention on other levels and modalities: technical, alternative, and college education.

48. The pertinent courses of action under the BPRS are as follows: (i) transforming the curriculum, and standardizing it at the initial, primary, and secondary levels; (ii) transforming the teacher training and administration system; (iii) promoting planning and the decentralized administration of education; and (iv) strengthening the supervisory and regulatory capacity of the governing body in the field of education.

**(ii) *Improving health services, and access to health services***

49. The BPRS's priority in the area of health coincides with the central objective of the health reform program: i.e., to reduce maternal and infant mortality rates, and to keep under control the main transmissible diseases.

50. Five areas of action are planned: (i) ensuring the efficient administration of human resources; (ii) broadening the health insurance system, which will consolidate the Basic Health Insurance scheme; (iii) keeping the main transmissible diseases under control and strengthening the epidemiological monitoring system; (iv) improving the people's diet and the state of their nutritional health; and (v) developing a cross-cultural approach to health.

**(iii) *Improving living conditions: Basic sanitation and housing***

51. The provision of basic services will make it possible to avoid transmissible diseases such as malaria, Chagas disease, and leishmaniasis, which are the main causes of health problems amongst the most vulnerable members of society. The availability of safe drinkable water is key to the children's health and can help to reduce infant mortality and illness rates.

52. Two courses of action are planned: (i) establishing and upgrading the sanitation infrastructure, for which purpose the pace of construction of safe drinkable water and sewerage systems will be stepped up, technical assistance programs for small municipalities will be implemented, and the skills of human resources in the sector will be upgraded; and (ii) improvement of housing infrastructure, involving the construction of social housing in rural municipalities, modernization of management systems, and updating of the regulatory framework for the sector.

**Increasing security and protection for the poor**

**(i) *Social safety nets***

53. The BPRS acknowledges the need to strengthen social safety nets intended for older adults, children and adolescents, and to pursue efforts to support food safety. The programs in question transfer resources and increase the capacities of the at-risk population and are targeted to specific groups.

**(ii) *Comprehensive attention to children's needs***

54. Investment in child care and child development will help to increase the capacities and living standards of the poorest segments of the population.

55. Programs will be promoted to cover: comprehensive attention to children's needs in a decentralized context at the municipal level and with citizen participation, guaranteeing the sustainability of programs of this kind and coordination with other actions in the areas of education and health.

**(iii) *Emergency programs to cope with natural disasters, and emergency employment programs***

56. Resources will be generated for a natural disaster fund, and regulations will be put in place to implement the Law on Risk Reduction and Disaster Relief [*Ley para la Reducción de Riesgos y Atención de Desastres*] and the appropriate institutions will be strengthened for carrying out activities to deal with natural disasters.

57. Actions will be undertaken to create temporary emergency jobs such as the Intensive Employment Program [*Programa Intensivo de Empleo (PIE)*] which will make it possible to create effective mechanisms for dealing with external shocks or natural disasters that have an impact on the income of the poorest segments of the population.

**(iv) *Guaranteeing the legal security of assets***

58. The BPRS includes three courses of action in this area: (i) completing the process of regularization of land tenure and continuing to strengthen farm administration structures; (ii) promoting a process of consensus with civil society for the development of a specific regulation governing water resources and the design of an institutional framework that is recognized and accepted by the government and the public at large; and (iii) strengthening the Urban Cadastre system in populated centers having a high rate of poverty and a high potential for generating economic activity.

**Increasing participation and social integration**

**(i) *Support and training for civic organization and citizen participation***

59. The Popular Participation initiative will underpin efforts to achieve civic organization and citizen participation. To consolidate this process, municipal governments will be strengthened through greater training of human resources, and local projects, priorities, and objectives will be taken into account.

60. Social control and citizen participation will be encouraged through advisory councils [*Consejos Consultivos (CCs)*] set up in each municipality, and new structures for participation and decision-making will be encouraged and strengthened, such as *mancomunidades*;<sup>2</sup> other functional organizations that are representative of the municipality will be brought in to play a role in this process; policies will be promoted to link projects aimed at improving the quality of social services or rural development with the pursuit of

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<sup>2</sup> A *mancomunidad* is an association of municipalities that have joined together on the basis of certain shared development objectives.

citizen participation;<sup>3</sup> and a national framework for institutional strengthening will be established which places emphasis on expanding coverage of municipalities and social organizations.

**(ii) *Reduction of inequalities and barriers based on ethnic discrimination***

61. Indicators disaggregated by ethnicity will be disseminated periodically to the authorities and the general public as a basis for defining policies and to provide a warning regarding those areas where inequality and marginalization are more severe.

62. Indigenous communities will be given training to better benefit from and use natural resources, and participation and organization schemes will be improved. The Office of the Ombudsperson [*Defensoría del Pueblo*] will be strengthened and will constitute a venue to which the poor can appeal in the event of any abuse or violation of their rights. Programs will be established to improve the access of indigenous people to the education system and assure their continued participation in it. Special attention will be paid to bilingual education and an intercultural approach, as factors that will clearly contribute to the reduction of ethnic inequalities in Bolivia.

**D. Cross-Cutting Issues**

**Development with identity**

63. To expand opportunities in rural, indigenous and native communities, the National Indigenous Development Plan will be designed and implemented. It will include development projects and programs in economic, social, cultural, legal and institutional areas. To make the Plan operational, the Law for Rural and Indigenous Development will be prepared and enacted, with the aim of safeguarding, protecting, and promoting the development of rural, indigenous and native communities as a duty incumbent upon society in general and the government in particular.

64. The coverage of education, health and other social services will be extended, and these programs will be tailored to reflect the characteristics, practices and customs of the rural, indigenous and native communities.

65. On the political front, indigenous and native organizations will be strengthened, the leadership capacities of their leaders will be enhanced and developed with a view to

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<sup>3</sup> This option for involving groups of poor people is important because it addresses the need to improve the quality of services, guarantee their sustainability, or ensure that they have the fullest possible impact; and because it is a tangible form of participation that has clear objectives and produces results which the people can see.

facilitating access to and participation in the centers of political power, and in the executive, legislative and judicial branches, both at the national and at the departmental and municipal levels.

66. Participatory democratic and solidary governmental practices characteristic of the indigenous cultures will be safeguarded and strengthened, by ensuring that their representatives have an appropriate role to play in government institutions and that the indigenous populations can exercise full rights of citizenship.

### **Promoting gender equity**

67. Policies will be developed with the aim of supporting women's role in production activities and promoting the sale of their products. Support will be provided for the production capacity of microenterprises and small businesses, with emphasis on firms run by women. Technological information systems, market information resources, and production networks will be established, and efforts will be made to enhance access to these facilities by women microentrepreneurs in urban and rural areas.

68. Support will be provided for the establishment of programs to enable rural women to have access to education at all levels. Moreover, access by women to quality health-care services will be facilitated, in a joint effort with the Ministry of Health and related institutions.

69. Domestic violence is one of the main factors affecting the well-being of large numbers of poor women and children. Accordingly, municipal action will be strengthened in the context of the Children's Protection Office [*Defensoría de la Niñez*] and the Women's Protection Office [*Defensoría de la Mujer*], which are considered to be one of the main tools for the enforcement of the Law on Domestic Violence [*Ley de Violencia Intradoméstica*].

### **Sustainable utilization of natural resources and environmental preservation**

70. So that the negative trends regarding to desertification and soil degradation can be reversed, when policies are implemented, river basins will be used as the unit of reference and steps will be taken to involve the general public in this process.

71. A National Water Resource Plan [*Plan Nacional del Recurso Hídrico*] will be designed and implemented. It will set out general guidelines for the management and organization of water resources and identify specific actions to be undertaken in order to reverse soil degradation and desertification.

72. Account will be taken of environmental concerns in the administration of rural municipalities, and emphasis will be placed on the use of tools for environmental prevention and control. Through public consultation processes, participation by civil society in environmental quality management will be promoted and strengthened. Emphasis will also

be placed on expanding the coverage of programs and projects to promote technological change and the appropriate utilization of waste products from mining and manufacturing.

73. To improve the income levels of the population through appropriate use of the biodiversity resources, the National System of Protected Areas [*Sistema Nacional de Áreas Protegidas* - SNAP] and the financial and institutional sustainability of the National Protected Areas Service [*Servicio Nacional de Áreas Protegidas* -SERNAP] will be strengthened. Buffer zones will be established around protected areas and biological corridors on the basis of ecological, socioeconomic, and cultural criteria; and societal participation will be promoted in the planning, management, and administration of protected areas.

74. Other specific actions to be undertaken include: implementation of the National Strategy for the Conservation and Sustainable Use of Biodiversity [*Estrategia Nacional de Conservación y Uso Sostenible de la Biodiversidad*]; activation of the Advisory Council on Wildlife [*Consejo Consultivo de Vida Silvestre*]; and support for the establishment of a National System for the Conservation of Genetic Resources [*Sistema Nacional de Conservación de Recursos Genéticos*].

75. To ensure that forest resources are developed in a sustainable and equitable way, a comprehensive approach embracing forestry, industry, and the market will be taken, involving strategic alliances, risk-sharing companies, and subcontracting among the various entities involved and public and private organizations.

76. Freedom of access by the entire population to forest lands will be promoted, so that the forests can be managed and developed in such a way as to open up new opportunities that will increase people's incomes. Technical assistance will be provided to all the participants involved, so as to facilitate management of the forests and further forest certification procedures.

#### **E. Institutional Framework and Social Control of the BPRS**

77. Success in implementing the BPRS and assuring its sustainability will depend in large measure on the possibility of establishing a favorable institutional environment that will strengthen the institutions of the State, promote credibility and win the trust of civil society, and make it possible for the actions envisaged in the BPRS to be carried out in timely fashion.

78. To this end, and recognizing the current weaknesses of the Bolivian State, the BPRS includes specific institutional development policies aimed at: deepening and improving the system of decentralized public administration; establishing transparent mechanisms for the allocation and administration of resources targeted to poverty reduction; promoting the institutional strengthening and professionalization of the public bodies charged with implementing the BPRS; recognizing explicit social control mechanisms; and fighting corruption within the public administration at every level.

### **Further decentralization**

79. An exhaustive review will be conducted of all the institutional duties and responsibilities currently performed by the municipal governments, prefectures, and agencies of the central public administration, in order to identify and correct inefficiencies and to allocate duties and responsibilities in keeping with the principle of subsidiarity.

80. In particular, a national law (*Ley del Diálogo Nacional*) will be enacted establishing that responsibility for hiring teaching and administrative staff for all schools and other institutions in the public education system—and for hiring medical, paramedical, nursing, and administrative staff for all primary and secondary health care centers, together with the financial resources and budget appropriations associated with such personnel—is to be transferred to municipal governments throughout the country on a gradual, assisted basis over a period of three years.

81. To strengthen the organization of local authorities and avoid institutional dispersion, the creation of associations of municipalities (*mancomunidades*) will be encouraged, and funds will not be distributed to municipalities having fewer than 5,000 inhabitants.

82. In urban municipalities having a population of more than 100,000, specific policies will be encouraged for distributing resources among districts, and people's participation within their municipalities will be deepened.

### **Progressive distribution of resources**

83. A transparent coordinating mechanism will be established for distributing the resources intended for public investment at the national, departmental, and municipal levels. In particular, the Single Funding Directorate (*Directorio Único de Fondos – DUF*) will arrange for the transfer of funds according to a formula based on the degree of poverty, as agreed in the National Dialogue with respect to debt-relief resources.

84. In this way, the municipalities will be aware of the ceilings on the transfers they are to receive, and they can design specific projects on the basis of guidelines established by the various sectors of the national government within the BPRS framework. The aim here is twofold: first, to ensure that all the resources targeted to municipal investment are allocated in a transparent way and according to a progressive distribution criterion; and second, to ensure that the municipalities allocate those resources in particular to the areas identified as being of high priority under the BPRS.

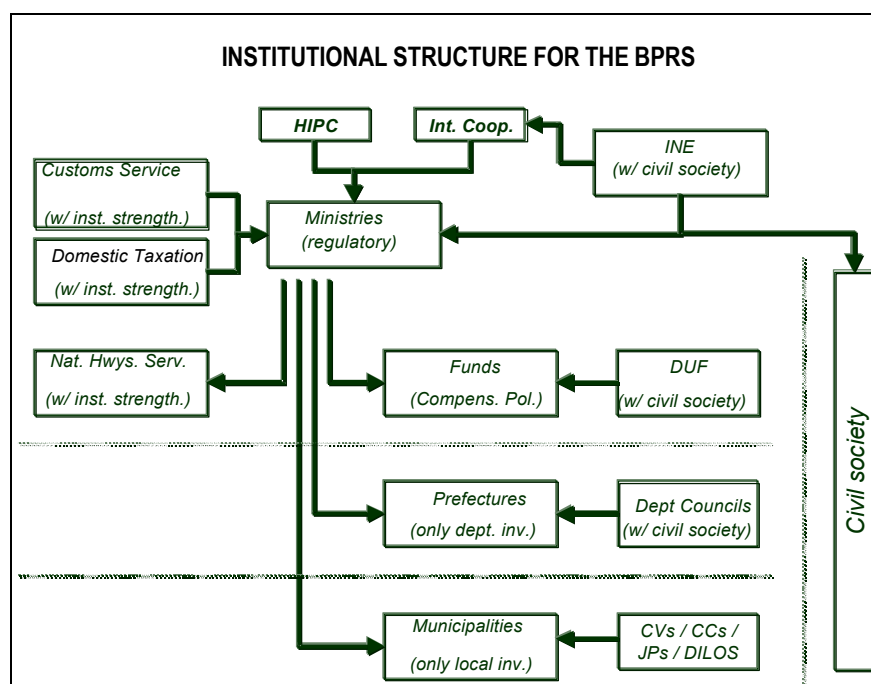
### **Institutional reform**

85. Existing institutional structures in Bolivia will be reformed in order to provide them with effective accounting systems, and to give them proper incentives to ensure that they administer poverty reduction programs efficiently and transparently. In particular, the

National Customs Administration [*Aduana Nacional*] will undergo further institutional strengthening, and a similar process will be launched for the National Roads Service [*Servicio de Caminos*] and the National Taxation Service [*Servicio Nacional de Impuestos*].

86. Representatives of municipal governments, vigilance committees, and civil society will be appointed to the Single Funding Directorate [*Directorio Unico de Fondos –DUF*], and the process of institutional strengthening of the National Statistical Institute [*Instituto Nacional de Estadística - INE*] will be consolidated.

87. At the departmental level, changes will be made in the composition and responsibilities of departmental councils, in order to strengthen their capacity for overseeing departmental prefectures and promoting greater efficiency and transparency in their administration.



### Social control

88. One of the conclusions reached in the course of National Dialogue 2000 had to do with the need for a social control mechanism to monitor the public administration at the national, departmental, and local levels, and assure the proper utilization of the resources targeted to poverty reduction, as well as the timely implementation of the plans and programs carried out in pursuance of the BPRS.



89. To this end, and also in keeping with the conclusions reached in the National Dialogue, the vigilance committees will be strengthened at the local level, and specific mechanisms will be promoted to monitor public services in communities. In addition, at the departmental and national levels, arrangements will be made with the Roman Catholic church to establish mechanisms originating within the civil society to guarantee complete transparency and access to information in regard to public administration, so that social control may be exercised.

### **The fight against corruption**

90. The implementation of the BPRS will include policies to fight corruption. The National Integrity Plan [*Plan Nacional de Integridad*] highlights the areas where these actions are to be carried out, with particular focus on: (i) the consolidation of judicial reform; (ii) the implementation of transparency systems with respect to public administration; and (iii) the adoption of specific measures in those areas most vulnerable to corruption.

91. With reference to judicial reform, the pace of activities aimed at securing the truly independent functioning of the arms of the judicial system—the courts, the Public Ministry (*Ministerio Público*), and the National Police—will be accelerated. To accomplish this, it will be necessary to complete the approval of laws and regulations still pending, and to step up institutional strengthening and development programs for these bodies. To the extent that the judicial apparatus can be made to function in a timely and independent fashion, this will reduce instances of corruption going unpunished, and will send the signals necessary in order for the problem to be dealt with systematically.

92. To improve transparency systems in public administration, the implementation of a government career stream will be expedited, within the framework of the Civil Service Regulations [*Estatuto del Funcionario Público*]. The information and financial administration resources already developed in the context of the systems governed by the Law on Governmental Administration and Control (the SAFCO Law), the results-oriented public administration evaluation systems, and the strengthening of the Office of the Comptroller General [*Contraloría General de la República*] will also be implemented.

93. Within this same framework, and following up on the findings of specialized workshops conducted as part of National Dialogue 2000, there are two measures requiring reforms to the Political Constitution of the State [*Constitución Política del Estado- CPE*] which are of particular relevance to the goal of reducing corruption and promoting Bolivia's institutional development: first, elimination of the monopoly enjoyed by the political parties with respect to access to municipal government, which distorts the exercise of democracy at the local level and promotes such unhealthy practices as cronyism and political corruption in the municipalities; and second, the setting of limits on the right of parliamentary immunity, which defeats the whole purpose of the exercise whenever efforts must be taken to prosecute acts of corruption.

## F. Mechanisms for Allocating Resources and Financing the BPRS

### Resource allocation mechanisms

94. The mechanisms proposed in the BPRS for allocating resources and securing financing include criteria of efficiency, equity, transparency, and participation within a context of increased fiscal decentralization. The compensation policy of the Single Funding Directorate [*Directorio Único de Fondos* (DUF)], and the allocation of external debt-relief funds (HIPC II) to the municipalities means that a growing proportion of public funds is being spent by decentralized levels of government. In particular, it is the municipal governments that will decide on the programs and projects to which they will direct their resources according to their own needs and requirements.

95. Thus, the fulfillment of the targets proposed in the BPRS will depend not only on decisions made at the central level, but first and foremost on decisions made at the departmental and local levels in allocating greater resources to areas identified as being of higher priority.

96. The BPRS places special emphasis on the investments' sustainability which, in order to succeed, must be supplemented with funding to cover operating, maintenance, and replacement costs. Recurrent expenditure associated with investment is generally financed using internal resources, which are not sufficient in view of budget constraints and given the nature of public investment intended for poverty reduction.

97. The success of the BPRS depends on the possibility of reallocating resources toward high-priority areas. Within this framework, internal and external public investment resources will be reallocated in a gradual process involving agreements with bilateral and multilateral cooperation partners. In addition, an approach will be implemented that focuses on results-based management and evaluation at the central, departmental, and municipal levels.

98. With the decision to distribute HIPC II resources on the basis of the degree of poverty, the allocation of resources will be made more progressive, to the benefit of the poorest segments of the population. This decision is in accordance with the municipalities' growing role in providing public services, and will be consistent with horizontal equity, generated on the basis of the *per capita* allocation of revenue-sharing resources.

99. The allocation of resources administered by the Funds to the municipalities will be carried out on the basis of equity, and priority will be given to those municipal governments that put forward the best projects. The various sector ministries will determine project eligibility, and projects must be compatible with the priorities laid down in the BPRS.

100. The National Compensation Policy [*Política Nacional de Compensación*] to be applied by the DUF establishes the total aggregate amounts to be transferred for the design and implementation of programs and projects for which municipalities are responsible,

through a mechanism to allocate resources on the basis of relative prices using differentiated cofinancing rates according to the level of poverty in each municipality, with an additional incentive if projects are put forward jointly by a *mancomunidad*.

### **Financing the BPRS**

101. Estimates made on the basis of macroeconomic scenarios show that during the period 2001 to 2006, public investment in connection with BPRS components will amount to US\$4,363.2 million.<sup>4</sup> If this forecast is borne out, it is estimated that a further US\$1,710.0 million will be needed to cover the operating, maintenance, and replacement costs associated with that investment.

102. In addition, to guarantee that specific targets will be met in those areas that are still without financing (or at least, that lack the total volume of financing required), in connection with rural electrification, road infrastructure, regularization of land tenure, and local roads, additional resources amounting to approximately US\$890 million will be required over the period 2001 to 2006. It follows, therefore, that achieving the goals set forth in the BPRS will require some US\$7.3 billion overall, including current expenditure on institutional strengthening and 50 percent of the HIPC II resources that it is assumed can be applied to current expenditure.

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<sup>4</sup> These investments represent approximately 97 percent of estimated total public investment during the period.

<b>BPRS: Projected Investment and Recurrent Expenditure for Each Component of the Strategy, 2001 to 2006<sup>1</sup> (In millions of current U.S. dollars)</b>			
Component	Total, 2001 to 2006		
	Investment	Recurrent Expenditure	Total
Opportunities	2,836.3	491	3,328.0
Capabilities	1,725.3	1,111	2,837.0
Protection and security	200.6	81	282.0
Social participation	10.2	5	15.9
Cross-cutting issues	141.8	9	150.9
Institutions	64.6	3	68.2
HIPC II Relief	214.1	66	280.3
<b>Total BPRS (Inv. &amp; Rec. Exp. linked with Inv.)</b>	<b>5,192.8</b>	<b>1,769</b>	<b>6,962.2</b>
HIPC II BPRS Relief Resources (Municipalities)	0.0	214	214.1
Ext. Fin. Res. not linked with Inv. / Inst. Strengthening	0.0	182	182.5
<b>Total Current Exp. on BPRS</b>	<b>0.0</b>	<b>396</b>	<b>396.5</b>
<b>Total BPRS and Current Expenditure</b>	<b>5,192.8</b>	<b>2,165</b>	<b>7,358.8</b>

Source: Estimates based on UPF and VIPFE information

<sup>1</sup>Includes HIPC II debt-relief resources starting 2001.

103. However, as indicated in the BPRS's action plans, and taking into account the need to preserve the fiscal equilibrium established in the baseline scenario, the private sector will be called upon to play an important role in financing the BPRS. This is why one of the objectives of the BPRS is to establish road concessions with respect to the construction and maintenance of segments of the basic roads system and award them to the private sector. Also, the BPRS will promote increased participation by the private sector, and particularly local microenterprises and small businesses, in carrying out microirrigation projects and in the rehabilitation and maintenance of local roads; and in general, through institutions such as the DUF, it will promote a greater role for communities and municipalities in rural development.

104. If all of the resources necessary to defray recurrent expenditures associated with the planned investments are in fact available, the investment required to implement the BPRS in its entirety amounts to US\$5,192.8 million for the period 2001 to 2006, whereas the recurrent expenditures necessary to assure the sustainability of those investments is estimated at US\$1,769.4 million over the same period.

105. The level of recurrent expenditures is high primarily in the case of education, health, and basic services, in which operating and maintenance costs have a substantial wage component, and in the case of road infrastructure, which requires recurrent expenditures for maintaining roads and highways.

106. Internally generated resources, in the form of tax receipts, will not be sufficient to cover all the recurrent counterpart expenses involved. For that reason, the BPRS proposes greater flexibility in regard to the counterpart funding required by international cooperation partners for programs associated with high-priority areas, so that counterpart resources can be freed up for defined periods and until such time as Bolivia is able to increase the level of resources it can generate internally. This would enable those resources to be used to defray current expenditure, thereby assuring the sustainability of the investments.

107. In short, in order to obtain the financing required, the BPRS proposes:

- to improve the internal capacity to generate resources (through increased tax revenues);
- to increase private-sector participation in infrastructure construction and maintenance;
- to propose to international cooperation partners to broadly extend Bolivia's access to concessional credit facilities;
- To reorient public investment programs and projects with less impact on poverty reduction toward the priorities defined in the BPRS.

## **G. BPRS Goals, Monitoring, and Evaluation**

### **Indicators and goals**

108. During the coming 15 years, the BPRS actions will have an impact on poverty reduction, hence the importance of having indicators and goals that will enable progress in implementing the Strategy to be monitored. The evaluation will be based on impact and outcome indicators that will make it possible to determine the degree to which poverty reduction is attributable to policy actions.

109. For the BPRS, a set of indicators has been designed at three levels: (i) impact indicators; (ii) outcome indicators; and (iii) intermediate indicators. These indicators are interrelated and will be continuously measured by means of surveys or administrative records.

110. Achievement of the goals will depend in large measure on economic development, the effectiveness of the BPRS actions, and the financing and capacity of the different levels of government to match resources to priorities.

111. The *impact indicators* reflect changes in the dimensions of poverty. *Outcome indicators* are used as an approximate evaluation tool, to measure the effects of the Strategy's actions over shorter periods of time. *Intermediate indicators* relate to the entire set of programs and projects envisaged in the BPRS's action plan, and are therefore used as a tool for monitoring the Strategy. In addition, indicators will be developed to monitor the Strategy in the municipalities.

112. At the end of the implementation of the Strategy, it is hoped that the standard of living of the poor can be raised substantially by increasing income levels, raising education levels, and improving health conditions.

#### **Principal Goals for 2015**

- Reduce the Headcount Index of poverty by at least 22 percentage points (from its current level of 63 percent to 41 percent).
- Reduce extreme poverty from its current level of 37 percent to 17 percent, thereby exceeding the international target of reducing extreme poverty by at least half.
- Increase life expectancy from 62 years to 69 years.
- Increase the proportion of the population that has had at least eight years of schooling from 51 percent to 67 percent.

#### **Evaluation and monitoring**

113. The evaluation process involves identifying the main programs to be evaluated, defining the type of impact expected from the programs within the framework of the BPRS, identifying the main sources of information, and making the institutional arrangements necessary so that the process can go ahead.

114. Evaluation requires reliable information; the indicators will be based on improved household surveys (MECOVI), the results of the National Population and Housing Census [*Censo Nacional de Población y Vivienda*] for 2001, and the development of administrative records.

115. The results of the evaluation and the methodologies will be disseminated to institutions and the general public. Private and public organizations will be invited to serve as members of an advisory group on the implementation of the BPRS. These results will be shared with civil society in forums agreed upon with it.

116. The feedback process for the BPRS will make it possible to improve the management of outcomes with respect to the fight against poverty, and will help further to strengthen institutional development on the basis of broad citizen participation.

## **H. Macroeconomic Context of the BPRS**

117. The BPRS operates within the framework of a market economy and must seek to maintain macroeconomic equilibria, which *inter alia* means that the actions and policies defined in the BPRS do not undermine fiscal, monetary, trade, or financial policies established in Bolivia's economic program.

118. The BPRS is based on ensuring continuity in economic policies that maintain stability and preserve a macroeconomic environment conducive to production activities. Similarly, it will pursue efforts to strengthen growth-friendly structural reforms, and investment will continue to be implemented.

119. Sustainable economic growth is a key factor in reducing poverty. One objective of Bolivia's medium- and long-term economic program is to achieve growth rates of between 5.0 percent and 5.5 percent over the next 15 years.

120. The BPRS is aiming for more labor-intensive growth that has been the case in the recent past, and by extension, to provide support for microenterprise and microfinance; however, it also presupposes that the role of medium and large enterprises in the private sector, both domestic and foreign, will continue to be instrumental in achieving the growth rates set as objectives under the Strategy. It follows that the proposed macroeconomic scenarios will entail building a suitable legal and economic environment for strengthening the private sector.

121. The deficit will be sustainable provided that it is financed from noninflationary sources, and provided that the domestic credit of the Central Bank and the private sector is gradually reduced, so that, in the latter case, public spending will not crowd out the private spending. The aim here is to ensure that the private sector continues to have access to credit, through the implementation of policy measures and through increased efforts to enhance tax revenue collection and improve the efficiency of tax collection. Spending policy will depend on the revenues that flow in, and the focus will be on current social expenditure and investment in accordance with the priorities set forth in the Strategy.

122. Deficit levels in the coming years will continue to be heavily influenced by the cost of structural reforms, and particularly pension reform. For that reason, there is still very little scope for earmarking additional resources for social spending and achieving the poverty reduction objectives set in the BPRS, if the only resources taken into account are those derived from the country's own internal efforts and those funds thus far committed from external sources. That is why the enhanced HIPC initiative (HIPC II)—and other initiatives

that Bolivia is proposing in the context of the BPRS, such as greater participation by the private sector in building and maintaining infrastructure—will open up additional sources of financing necessary to ensure the attainment of the objectives established in the Strategy.

123. The Customs Reform implemented in 1999 will usher in improvements in the efficiency and administration of the customs regime, which will increase customs revenues from the value-added tax and the specific consumption tax (ICE) on imports. Similarly, the promulgation of the new Tax Code will establish a legal structure that will make it possible not only to broaden the tax base but also to enhance taxpayer compliance, which will result in an increase in tax receipts. In addition, National Treasury revenues will grow as a result of royalties collected on the export of natural gas to Brazil.

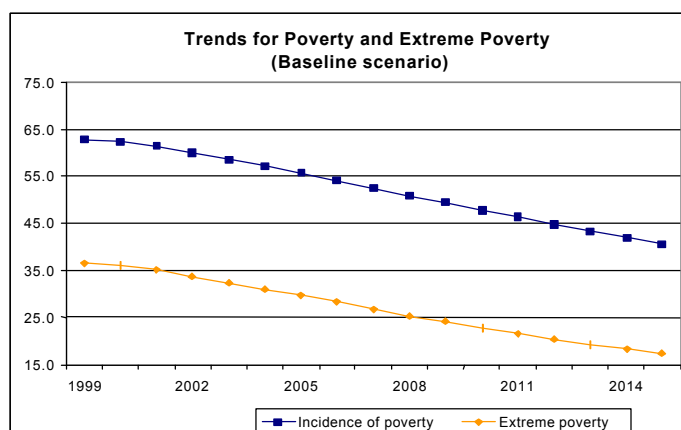
124. The main objective of the monetary policy will continue to be maintaining price stability and holding inflation below 4 percent, and, coupled with the exchange rate policy, this will help maintain a competitive rate of exchange for exports.

125. The sustainability of the balance of payments is predicated on sustained export growth, direct investment (mainly in the mining and oil-and-gas sectors, which will finance a large proportion of imports), and public sector borrowing at rates and maturities commensurate with the ability to generate resources to cover the cost of debt servicing. Thus, the balance-of-payments current account deficit shows a declining trend over time, leveling off below 5 percent of GDP. This means that external savings will be lower, and that investment will increasingly be financed through domestic savings.

126. The BPRS's plans to direct more resources toward rural areas, infrastructure, and support for small businesses and microenterprises will help to bring growth to segments of the population that did not get its benefits. This will also improve the productivity of sectors that make intensive use of labor, thereby helping to close the gap between modern sectors of the economy and the more backward or traditional sectors such as agriculture, manufacturing, and services.

127. Estimates indicate that the average headcount index of poverty will fall from 62.4 percent in 2000 to 40.6 percent in 2015, while extreme poverty will fall by more than half, from 36.5 percent in 1999 to 17.3 percent in 2015. Thus, the projected rate of growth will bring about a decline in the headcount index of poverty averaging 1.45 percent annually, and a decline in extreme poverty averaging 1.26 percent annually. These figures are very close to the averages observed in other countries that have experienced growth rates of at least 5 percent a year for extended periods, and will enable Bolivia to meet the international target of reducing extreme poverty by half.





Saving and investment levels will be at least 20 percent of GDP, and domestic private investment will continue to increase. Domestic savings will also increase to an average level of around 15 percent of GDP, thereby reducing the dependence of Bolivia's economy in financing the investment it needs in order to grow.

<b>BPRS: Macroeconomic Scenario</b>				
<b>Evolution of Macroeconomic Variables</b>				
	<b>2000</b>	<b>2003</b>	<b>2007</b>	<b>Average 2008 to 2015</b>
(Annual percentage change)				
<b>Production and prices</b>				
Real GDP	2.50	5.00	5.40	5.50
Prices (end of period)	3.41	3.80	3.50	3.50
(As a percentage of GDP)				
Savings	18.3	18.1	19.9	20.4
Gross domestic savings	11.9	13.8	15.2	15.7
External savings	6.3	4.4	4.7	4.6
Gross domestic investment	18.3	18.1	19.9	20.4
Gross capital formation	18.0	17.8	19.5	19.9
Private	11.6	10.5	11.5	11.7
Public	6.4	7.2	8.0	8.1
Surplus (deficit) of nonfinancial public sector	(3.7)	(2.9)	(1.7)	(1.3)
Financing	3.7	2.9	1.7	1.3
Net external financing	2.1	2.5	1.9	1.8
Net domestic financing	1.6	0.5	(0.2)	(0.6)
Exports f.o.b.	14.2	17.3	18.5	18.1
Imports c.i.f.	(22.2)	(22.3)	(22.6)	(22.1)

Source: Based on information from the Central Bank of Bolivia.

## **I. International Cooperation in the Context of the BPRS**

128. For a low-income country such as Bolivia, the participation of the International Community – multilateral institutions, bilateral agencies, and friendly governments – has always been a factor of critical importance for development programs.

129. To date, Bolivia's relations with the International Community have been at two main levels: first, relations with the member countries of the Organization for Economic Cooperation and Development (OECD), mainly in connection with matters of international interest such as the fight against drug trafficking, the implementation of structural reforms, renegotiation of the external debt and debt relief, the implementation of technical and financial development assistance programs, and the promotion of foreign investment in the country; and second, relations with neighboring countries concerned chiefly with trade and political issues.

130. However, Bolivia is facing two critical problems that it must resolve. On the one hand, it needs to make major investments in order to achieve concrete results in its fight against poverty; but on the other hand, because of those investments as well as other earlier investments, it has to direct more and more resources towards ensuring that the investments it has made will be sustainable. Accordingly, Bolivia has begun negotiations with the multilateral financial organizations and with international cooperation partners to prevent the loss of access to concessional financing.

131. In this way, it will be important, for the achievement of the BPRS objectives, for Bolivia to generally extend its access to concessional external financing, i.e., at lower interest rates and with longer grace and amortization periods.

132. Another key problem that the country needs to resolve in collaboration with the International Community is that of disbursement capacity. As disbursements come to be more effectively executed, the pace of programs and projects can be speeded up, and particularly when they relate to poverty reduction. This means that the public sector needs to improve its administrative mechanisms for executing projects and fulfill the counterpart requirements agreed upon in regard to the disbursement of external resources, and that the International Community itself needs to make its rules regarding disbursements more flexible and adapt them to the priorities set forth in the BPRS.

133. In addition, in regard to the sustainability of a development and poverty-reduction program over the long term, which is the ultimate objective of the BPRS, it is clear that Bolivia must gradually wean itself from dependence on foreign aid. This will be accomplished, as planned, as growth targets are met, public finances are strengthened, and employment and income programs are implemented as envisaged in the Strategy. As this comes to pass, the nature and purpose of Bolivia's relations with the International Community will have to evolve into new areas, particularly trade.

134. Given this framework, and with a view to making the International Community a strategic partner in Bolivia's development, it is stated in the BPRS that efforts with the International Community need to focus on three specific areas:

- Postponing or slowing the pace of Bolivia's graduation from concessional financing windows, so as to ensure both, BPRS financing on appropriate terms and the attainment of its objectives.
- Implementing the principles set forth in the New Framework of Relationship between Bolivia and its International Cooperation Partners [*Nuevo Marco de Relacionamento entre Bolivia y la Cooperación Internacional*], so as to facilitate the disbursement of aid resources and orient them to the objectives of the BPRS.
- Including matters relating to the opening of markets and free trade agreements with OECD countries on the agenda for bilateral discussions, so as to assure the long-term sustainability of the development policies contained in the BPRS.