

INTERNATIONAL MONETARY FUND AND  
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

BOLIVIA

**Poverty Reduction Strategy Paper  
Joint Staff Assessment**

Prepared by the Staffs of the International Development Association and the  
International Monetary Fund

Approved by Claudio M. Loser and Michael T. Hadjimichael (IMF) and  
David De Ferranti and Cheryl Gray (IDA)

May 10, 2001

**I. OVERVIEW**

1. The present PRSP (or EBRP)<sup>1</sup> of the Government of Bolivia represents a further step in a continuing effort by the government to reduce poverty through stable growth and policy actions targeted to the poor. The strategy places emphasis on reaching out to excluded groups, and increasing the effectiveness and efficiency of institutions in the public sector. It is balanced, comprising not just a social sector strategy but also recognizing the centrality of economic development, and of issues of vulnerability and institutional effectiveness, for an effective overall poverty reduction strategy. The strongest points in the poverty reduction strategy are (i) its focus on a deepening of fiscal decentralization; (ii) a commitment to develop mechanisms of social monitoring; (iii) integration of sectoral and other policies for poverty reduction in a macroeconomic framework; and (iv) a participatory process that involved a large effort to get local input, via municipal-level dialogue, as well as a national dialogue on social and economic issues for poverty reduction.

2. The content of the Bolivian PRSP in many ways goes well beyond what one could expect in this type of document, in terms of the depth of the analysis and the level of detail that is given. However, major risks remain relating to the government's capacity to implement the program, given the weaknesses apparent in public administration and public sector institutions. Rising social tensions, and a fragile political situation, also may limit the current administration's ability to meet the goals it has set for itself over the remaining months of its term (see section on risks, paras. 32–33).

---

<sup>1</sup> *Estrategia Boliviana de Reducción de la Pobreza*, Government of Bolivia, March 2001.

## II. THE PARTICIPATORY PROCESS

3. The EBRP builds on a previous process of national dialogue for poverty reduction. The first national dialogue started with the new government in 1997, and resulted in a four-pronged plan for sustainable growth, social development, institutional strengthening, and eradication of drugs. Although substantial efforts were made by the government to implement the strategy, especially in the area of coca eradication, there was little follow-up before the inauguration of the 2000 Dialogue. An interim PRSP was drafted soon after the enhanced HIPC initiative was launched, and discussed by the IDA and IMF Boards in January and February 2000. The I-PRSP document was seen as lacking clear priorities and had little participation in its preparation.

4. A new national dialogue was launched in April, 2000 to promote participation in the preparation of the PRSP, despite a difficult political environment. Before the national dialogue started, various groups of civil society mobilized to prepare their own dialogues. These groups included the Jubilee 2000 Forum of NGOs, sponsored by the Catholic Church, and groups representing small producers, indigenous people, and miners. The National Dialogue itself was designed as a bottom-up process with discussions taking place first at the municipal level, then passing to the regional level and culminating at the national level<sup>2</sup>. Each municipal table was attended by the mayor, the vice president of the municipal council, and the president of a vigilance committee. Four topics were discussed: determinants of poverty, mechanisms for the allocation of HIPC resources, citizens' participation in monitoring the use of HIPC debt relief resources, and follow-up and periodic renewal of the national dialogue.

5. The nine departmental round tables, which took place during nine weeks between July and August 2000, included delegates of the municipal round tables, the Jubilee 2000 Forum, central government, and civil society. Government participation in departmental round tables was limited, with high-level government participation in only three of the nine departments. The departmental meetings focused on priority actions at the regional level for the fight against poverty; citizens' participation in the monitoring of resources for public investment; the content and institutional framework of public policies; and follow-up of the national dialogue. Despite this effort to bring the participatory process closer to people by decentralizing it, NGOs and civil society groups have raised questions as to whether: (i) some consultations were unduly influenced by local decision makers, (ii) vulnerable groups were well represented, specifically women and indigenous people, and (iii) the methodology used promoted real participation, in that it was highly structured, and the agenda of the discussions was not sufficiently flexible. Nonetheless, most observers agree that the government has made a good faith effort at utilizing a participatory approach in developing

---

<sup>2</sup> A total of 1,215 people from 314 municipalities participated in the municipal round tables, while there were 935 people in the departmental round tables, and 273 people in the national round table.

its strategy, and has laid the groundwork for an ongoing participatory process for monitoring the strategy.

6. The national round table in August, 2000, included delegates of the municipal and departmental round tables, ministers and vice ministers from the central government as well as representatives of civil society, including indigenous groups. Six sectoral topics were discussed: support to production, education, health, basic sanitation and housing, land, and environment. While there was little discussion of macro themes, some structural issues were discussed, including tax policy and administration, the need for labor reform, trade policy, and the regulatory environment for businesses. The representation at the national level from the political parties and the legislature was very low. Representatives of the business sector did not attend municipal round tables and only moderately participated in the departmental round tables. Agreement was achieved on various topics, including: (i) the determination of priority policy areas: productive infrastructure, support for production (access to microfinancing and other credit), education, health, and land tenure; (ii) the definition of an automatic mechanism for the distribution of HIPC resources; and (iii) the need to establish social oversight and monitoring mechanisms, which would give civil society a role in monitoring the utilization of HIPC resources. As a result of the dialogue, the attached PRSP was prepared. Annex III of the document shows in matrix form the issues raised in the national dialogue, and how they are treated in the EBRP.

7. The conclusions of the national dialogue guided the government in its drafting of the full PRSP, which was approved by the Cabinet in February 2001. The document was then shared with the general public, followed by a public discussion of the draft. Several groups that participated in the national dialogue conducted workshops to discuss the document. As a result of these discussions, the document was revised in several areas, including more extensive analysis of indigenous, gender and environmental issues. Plans have been made for extensive follow-up of the EBRP through existing mechanisms of social oversight at the municipal level and newly created agencies of social oversight at the departmental and national levels. The review process will be formalized in the new national dialogue law (*Ley del Dialogo Nacional*) which will be presented and discussed in congress within the next few months. The EBRP itself will not be discussed or approved in congress.

### III. POVERTY DIAGNOSIS

8. **The EBRP provides a good, comprehensive poverty diagnosis** based on available data, and examines the regional and distributional consequences of growth in the past. The poverty analysis draws on the household survey of 1999, data from two population censuses, and qualitative analysis provided by participants in the national dialogue. In the opinion of staff, the EBRP makes good use of these data to assess trends in income poverty and basic needs, and conclusions reached are supported by the data.

9. **Nature and determinants of poverty.** The EBRP provides a succinct, convincing description of the nature of poverty in Bolivia, including its geographic distribution. This

emphasis on geographic differences in poverty provides the basis for the focus in the strategy on the rural poor, and the process of decentralization of the control of expenditures to municipalities. The discussion of the evolution of poverty and its determinants in the EBRP is considerably stronger on the income than on the nonincome dimensions of poverty. The EBRP makes a valiant effort to describe changes in income poverty in urban areas, a hard task given problems of comparability in the instrument and coverage of surveys over time. Information is given on some factors associated with urban income poverty—for example, educational attainment, age profile, and ethnicity—but not on other possible candidates—for example, gender, employment status and sector of employment, home ownership, and access to credit. The main factors associated with rural poverty are the low productivity of the farm sector, unskilled labor in other sectors, water shortages, inadequate infrastructure, and ill-defined property rights. The EBRP lists some of the key causes of the persistence of poverty in Bolivia, including poor access to markets in rural areas, and inadequate insertion in labor markets in urban areas.

10. **Impact of past policies on poverty.** The EBRP gives an excellent description of the changes in the Bolivian economy in the 1980s and 1990s, and relates macroeconomic performance to changes in poverty. The strategy paper describes how the recession during the late 1980s was associated with higher urban poverty rates, while the improved growth performance of the 1990s has been associated with lower urban poverty rates. The EBRP provides no systematic analysis of the relative impact of macroeconomic shocks on specific groups. But it is candid about the fact that growth in the 1990s was skewed toward capital-intensive sectors and relatively high-income regions.

11. The main limitation to the analysis of poverty is the absence of an explicit link between the diagnosis and the success (or failure) of past interventions, and implications for the selection of the priority policy areas for the future. Many of the deficiencies in the rural areas—the water deficit that affects most of the country, poor road infrastructure, lack of definition of property rights and a highly unequal distribution of land—have been known for some time and there have been considerable efforts in the past to increase productivity in the rural areas. An assessment of the reasons for past successes and failures would have made the case for the proposed priorities more compelling.

#### IV. THE POVERTY REDUCTION STRATEGY

##### **Targets, indicators, and monitoring**

12. **The poverty reduction targets are ambitious but achievable, in the staffs' view.** The EBRP establishes targets for the medium and long term (2005, 2010, and 2015); they include, for the period from 1999 to 2015, (i) a reduction in the incidence of poverty from 63 percent to 41 percent, and a reduction by half in the incidence of extreme poverty, from 36 percent to 17 percent, consistent with the International Development Goals (IDG); (ii) an increase in life expectancy from 62 to 69 years; (iii) a reduction in infant mortality from 67 to 40 per 1,000 and of maternal mortality from 390 per 100,000 to 200 (both less than the IDG

goals<sup>3</sup>); and (iv) significant increases in rates of school attendance and completion. The strategy also includes a large number of detailed targets and objectives, both for final results and intermediate indicators of progress. If anything, the PRSP has too many targets which will make monitoring somewhat unwieldy.

13. It is not possible to quantify with precision the linkage between policy actions and final targets; however, in the staffs' judgment, the targets for the reduction of poverty and extreme poverty are broadly consistent with the macroeconomic framework, assuming there is no worsening of income distribution and the targeted growth of GDP, 5–5 ½ percent, is attained. The goal of reducing extreme poverty by half also is considered achievable. However, the success in poverty reduction is contingent on attaining certain levels of GDP growth. A sensitivity analysis in Annex IX of the PRSP indicates that, were economic growth to be lower than expected, poverty reduction would be slower. For instance, with an average growth of 4 percent, poverty would be reduced only to 50 percent by 2015 (instead of 41 percent).

14. **Forging a closer link between policy actions and final targets remains a task to be pursued in the implementation of the strategy.** The setting of targets, and the analysis of the relation of income growth to poverty reduction, reflect a sound analysis of historical trends and cross-country comparisons. There is a coherent overall approach, with separate identification of indicators of final impact, results and intermediate outcomes. Also, the informational and institutional requirements for monitoring and evaluation have been taken into account. However, as is the case of many countries, the information base does not permit an explicit link between budgetary allocations, priority actions and possible impact on the indicators.

15. **There are some areas of weakness in the proposed system of indicators.** In general terms, the translation of priority actions to indicators comes through much more strongly in the social area than in the productive area. In some cases, the chosen indicator does not seem to match well with the priority action identified in the strategy, and there are no indicators for some of the strategy's intermediate objectives concerning private investment, nutrition, security for the poor, participation, wages, and improved employment conditions.

16. **The implementation of plans for monitoring and evaluation remains a challenging task.** The existing expenditure reporting systems provide an incomplete basis for monitoring poverty-related expenditure, in part because the classification of expenditure does not cover all categories of pro-poor spending, and in part because of the limited coverage of municipalities' expenditure. However, as explained in paragraph 30, the authorities plan to improve their capacity to monitor poverty-related spending. The staffs consider that the existing systems would, if followed by the implementation of the planned

---

<sup>3</sup> This is true when compared to the rates in 1990.

improvements, provide an acceptable basis for proceeding with monitoring the anti-poverty strategy. However, the staffs note with concern that the action plan presented in Annex VI for 2001–03 does not lay out a program of technical work needed to assure that adequate monitoring of the program will be carried out.

17. **The monitoring of the poverty reduction strategy will be enhanced by the planned social oversight of anti-poverty programs.** The legal foundation for ensuring social oversight, and formalizing the participatory process, are incorporated in the draft law on the national dialogue mentioned previously. At the local level, the strategy calls for strengthening the existing *Comités de Vigilancia* (local oversight groups), while social oversight at the departmental and national level will be undertaken by civil society groups coordinated by the Catholic Church. Also, poverty monitoring will utilize a system of household surveys which are being strengthened through the multilateral MECOVI program. At the departmental level, the existing results-oriented monitoring and evaluation system (SISER) will be strengthened.

### **Macroeconomic framework**

18. **The macroeconomic framework in the EBRP is essentially sound, in the staffs' view.** The target path for the growth of real GDP, which rises to 5 percent in 2003 and 5 ½ percent by 2008 under the baseline scenario, is somewhat higher than average growth rates during the 1990s (4 percent), and the staffs judge the path to be challenging but feasible, provided the strategy is fully implemented. To reach the higher growth path will require various structural changes that the EBRP indicates are needed, including a stable legal and judicial environment that attracts private investment; more flexible labor markets through labor reform; greater emphasis on pro-poor growth by removing obstacles to the development of small-scale agriculture; and other policy actions under the EBRP's strategic component of "opportunities." The strategy depends on having an adequate level of private investment, which is foreseen to rise over time. More attention is needed on how to promote a better investment environment, including streamlining of regulations and reducing the costs of doing business, particularly infrastructure bottlenecks. The uncertainties regarding the timely implementation of structural reforms, as well as the vulnerability to external shocks, are elements of downside risk (see section on "risks" below); indeed, the projections assume a fairly rapid recovery from present depressed conditions in the economy. However, the projections do not assume major new natural gas projects, which in view of recent large discoveries could materialize.

19. **The importance of maintaining macroeconomic stability is clearly stated in the EBRP.** The framework is consistent with sustainable fiscal and external positions. Also, the fiscal and monetary policies described in the EBRP should result in low inflation rates, an objective that assumes added importance in view of the highly dollarized financial system and the crawling peg exchange rate system. The investment and savings requirements to support the assumed growth of the economy are consistent with the external financing expected to be available to the economy over the next 15 years, and net domestic borrowing by the public sector would gradually be eliminated. Reasonable public expenditure paths

have been projected, based on noninflationary sources of financing. Further, the projections on government revenues reflect the authorities' intention to increase their ability to raise internal resources more efficiently, particularly tax revenue, hence reducing the country's dependence on external funding.

20. **The EBRP's analysis of the economy's sources of growth from a macroeconomic perspective is very limited.** Staffs agree with the strategy's view that poverty-reducing growth should be based upon the reactivation of Bolivia's labor-intensive sectors. Pro-poor growth might be jeopardized, however, by the failure to address structural impediments mentioned in para. 18. The growth of the capital-intensive hydrocarbons and mining sectors would contribute to the anti-poverty effort mainly through the generation of fiscal revenues rather than job creation.

### **Policies for implementing the strategy**

21. **The poverty reduction strategy addresses the key policy, incentive and institutional constraints to poverty reduction.** The strategy is consistent with the poverty diagnostic, in that it places heavy emphasis on rural development, and improvements in human capital and essential services. It consists of four strategic components: (i) expanding opportunities for employment and income, particularly for small agricultural producers and micro enterprises, with rural development led by better infrastructure; (ii) developing individuals' capacities, with greater access to, and higher quality of, primary education and preventive health care; (iii) increasing social protection of the poor; and (iv) promoting social participation and integration, with a deepening of the decentralization process. The PRSP presents a detailed set of **structural and sectoral policies** for the public sector, while recognizing that poverty reduction is not just the responsibility of the public sector, but of the whole society. Proposed actions focus on steps to promote growth, build up key physical and human resources, and provide for social protection. However, the EBRP is weak on identifying priorities among the long list of actions proposed, and the action plan (Annex VI) is ambitious, and does not present policy plans for the initial stages of implementation of the PRSP in the areas of public sector administration and good governance, although these areas have been identified as key for the success of the strategy.

22. The EBRP also clearly lays out a set of **sectoral expenditure priorities**, which reflect the priorities identified in the national dialogue. These include road infrastructure, rural development, microenterprise development, land access and tenure, education, health, basic services, and gender and ethnic programs. Some of these will be included in the eligible menu of projects that the new investment fund will offer to the municipalities; others would be implemented as national programs. In the view of the staff, the overall thrust of the sectoral priorities in the EBRP is sensible—for example, the emphasis on essential infrastructure, and on building up the human capital of the poor. However, the final decisions on the composition of poverty-related expenditure will depend in part on the municipalities, as noted above. In addition, it is difficult to judge whether the sectoral allocations are sufficient to produce the results that have been targeted.

23. The strategy places due emphasis on the issues of **social inclusion and equity**. The strategy incorporates the themes of greater equity for women and indigenous groups as cross cutting issues, along with protection of the environment. The strategy places emphasis on combating extreme poverty in rural areas, where indigenous people and small farmers—and particularly women in both groups—suffer most acutely from social exclusion. It does not, however, calculate the likely impact of proposed policy measures on the poor. While the policies in the PRSP are designed to benefit the poor in the medium term, some policies could have a negative short-term impact on some poor people (e.g., implementation of irrigation water charges).

### **Public expenditure program and financing**

24. **The EBRP presents cost estimates for all investment and some current spending in each of the four strategic components and the cross-cutting issues.** The overall composition of revenue and expenditure plans is consistent with the sectoral priorities identified in the EBRP. The EBRP foresees financing requirements of US\$7.4 billion (2001–06), of which US\$3.7 billion would come from domestic sources, US\$2.8 billion would come from foreign financing, and US\$0.9 billion represents a financing gap. Total public investment would rise from about 7 percent of GDP at present to 8 percent by 2006. The authorities have also made significant efforts to estimate the levels of current spending associated with the amounts of expected investment, including future operating and maintenance costs. The increase in investment assumes additional tax and other fiscal revenue effort, as well as somewhat higher levels of foreign assistance. Alternatively, the financing gap might be filled by the private sector (e.g., in investment for road concessions). Revenue is projected to increase in the near term as a result of improvements in tax administration that are designed to reduce evasion and promote greater equity. However, a major reform of the tax structure may also be needed to generate the revenue required.

25. **The emphasis placed on identifying the strategy's costs is welcome.** In particular, the estimates take explicit account of maintenance and other recurrent costs associated with public investment. However, the costing exercise is general, reflecting the difficulty of quantifying the unit costs of attaining the strategy's intermediate targets. In addition, restrictions on the assignment of enhanced-HIPC resources for current expenditures may be considered in the draft Law on the National Dialogue. Staffs recommend that the use of these resources for poverty-related current expenditure not be prohibited, and note that such a restriction could result in an inadequate provision of the current spending required by the strategy. Staffs note that the EBRP's cost may need to be revised as the strategy is implemented.

26. **A key feature of the EBRP is the further shift in resources to municipalities.** The formula that will be used to allocate the enhanced HIPC funds and the funds transferred through the new Social and Productive Investment Fund (FPS)<sup>4</sup> is likely to improve the

---

<sup>4</sup> Formed by the merger of two existing funds.



targeting of resources through an enhanced ability to identify poor communities. The success of the poverty reduction strategy, however, will depend to a great extent on municipalities making sound investments for poverty reduction. Municipalities will have considerable discretion to finance activities that are of high priority at the local level, financed by both revenue-sharing funds that are allocated by population and the enhanced HIPC funds, whose allocation also will reflect the concentration of poverty. The national government will have reduced influence over these spending decisions, shifting more to oversight and technical assistance, although it will continue to have influence over the nature of the investments financed through the FPS. The menu of eligible projects is designed to benefit the poor. Evidence from evaluations of previous funds indicates that the investments in health and water have reduced child mortality, and investments have been reaching the poor. The new administrative arrangements will further strengthen the pro-poor nature of the FPS.

27. **The document clearly relates the total cost of the strategy to the internal and external financing available over the next 15 years.** The strategy acknowledges the importance of promoting a better coordination between the Bolivian government and the international donors, and of greater flexibility in directing external finance to the priority areas identified in the EBRP. There has been extensive participation of development partners in the PRSP process, building on the Bank's work in Bolivia on the Comprehensive Development Framework (CDF). Given the importance of the EBRP for future assistance of all donors, the bilateral donors in Bolivia came together to prepare an assessment of the strategy. While there is a clear commitment to align donor priorities with the EBRP, most of the partners are at varying points in the transition from sponsoring projects on an individual basis to an approach in which external support is embedded in the country's sectoral strategies. In general, there is a strong commitment to provide the technical and financial support for implementation, to rationalize donor action, and to link the scale of support to the quality of implementation of the strategy.

28. **The EBRP evaluates some of the effects of different levels of concessionality in financing, and requests a reduction in counterpart funding requirements from international donors so as to help close the financing gap.** A reduction in the counterpart financing requirement would permit greater flexibility in the use of domestic resources, including increased spending on operations and maintenance, but probably would not add to the net capital inflow likely to be available. Clearly, the EBRP depends on a continuation and increase in the level of concessionary resources available to finance the proposed expenditures.

29. **The fiscal management capacity to effectively implement the EBRP is weak, since most poverty-related spending will be planned and executed by the municipal governments.** The central government is designing improved reporting requirements for municipalities' poverty-related expenditures. Since the spending is concentrated in the largest cities, efforts are under way to implement a new financial management information system in the large and medium size cities beginning in 2001. However, using a transparent formula to distribute transfers and HIPC resources may promote financial accountability for the flow of public funds for poverty-related spending at the municipal level. The reliance on

decentralized provision relies to some extent on the democratic and political process to hold local government officials accountable for their spending choices. In addition, the strategy proposes social oversight as a means to providing greater accountability. Neighborhood oversight committees will be strengthened. It will be particularly important to ensure that all local groups are represented in the social monitoring effort, and that these groups are granted sufficient power if they are going to have an impact on spending choices. The decentralization effort will be supported by a forthcoming World Bank programmatic adjustment credit.

30. **The EBRP proposes the introduction of a medium-term expenditure framework to improve the ability to implement and monitor poverty-related spending.** The authorities integrate municipal budgets into the public sector budget that is published annually and include the outturn of municipal budgets in the reporting of public sector operations. These data, which have problems of timeliness, quality and consistency, are expected to be improved by an integrated financial management system for authorizing and tracking monthly expenditures. This system has recently been made operational at the national level and will soon be extended to the municipal level. Available estimates of pro-poor and social-sector spending are based on partial coverage of data, particularly at the municipal level. The reliability and comprehensiveness of these data will be improved after the functional classification of expenditure becomes available, starting in 2001 at the central government level, followed by reporting by local governments. At the local level, the system will be implemented with a longer delay, so that in the near term the monitoring ability of this system will remain weak.

31. **Weaknesses of governance and public sector management are a major constraint in realizing the objectives of Bolivia's PRSP.** They reflect complex problems of a patrimonial state embedded within an unequal and politically divided society. The strategy has a frank discussion of the issue; the diagnosis is generally sound; and there are some important and bold actions, notably with the proposed decentralization to municipalities and the plans for increased effort on social monitoring of the strategy. In general, this is an area where there is a good overall vision of the direction of change. In the area of judicial reform, proposals are vague and need further development. The strategy has an unusually candid account of the problem of corruption, and some initial first steps to help address it, centered around civil service reform. While there have been some notable advances (the appointment of an independent supervisor of civil services, progress in customs reform and a reduction in narco-trafficking), the corruption strategy has encountered resistance from entrenched interests and has been slowed by an ineffective judicial system.

### **Risks to the strategy**

32. **The staffs agree with the Government's identification of risks in the EBRP.** The staffs concur that the economy's vulnerability to external shocks is likely to continue, whether from fluctuations in the terms of trade, a weakening in the demand for exports, adverse weather conditions that reduce agricultural output, or other causes. The shock scenario of the EBRP assesses the impact of a terms of trade deterioration, and shows that

under plausible assumptions the progress in reducing poverty could be set back by three to four years. Also, the prospective loss of access to concessional foreign financing, which is already assumed in the baseline scenario, entails a risk in that the shift to nonconcessional borrowing will reduce the resources available for the fight against poverty, consistent with maintaining a sustainable external and fiscal position.

**33. The staffs also consider that the strategy is subject to significant implementation risks to a greater extent than is indicated in the EBRP.** These risks include the following:

- The potential for continued social unrest, strikes and disruptions of the economy imply the possibility of delay in the timely implementation of the reforms. There were two major episodes of social conflict in 2000, in part associated with the coca eradication drive, but also linked to long-term grievances of some indigenous groups. There is a risk that these disruptions could recur. Over the long term, the institutionalization of the national dialogue process might reduce these tensions by providing channels for the peaceful expression of dissent.
- If the challenge of fighting corruption and improving governance is not met, the objectives of the strategy would be compromised. Bolivia's institutions are weak at all levels, and corruption is but only one manifestation of the problems faced by the public sector. The problem is clearly and candidly noted, but there remains considerable uncertainty about whether implementation of the required changes will take place, given current political conditions. Future Bank operations will focus on implementing reforms in this area in both the road sector and general public administration.
- Despite the major effort in the national dialogue and ongoing dissemination activities, the extent of buy-in remains limited. This is associated with a fragile political situation, widespread lack of confidence in the government, and national elections which will take place in 12 months.
- The plans for further decentralization, with greater responsibility for municipalities, carry a number of risks: (i) municipal governments may not represent all their constituents because of the influence which national political parties have on local government; (ii) insufficient capacity at the municipal level, especially in poor municipalities, presents a serious implementation concern, if decentralization occurs too rapidly; (iii) the monitoring capacity is weak at the municipal level, making it difficult to track the relation between municipal spending patterns and the national priorities laid out in the EBRP. However, Bolivia will be receiving support from the Bank and other donors<sup>5</sup> which will focus on supporting the institutional and participatory framework of the decentralization program. Bank support will take the

---

<sup>5</sup> Including the Netherlands, Sweden and the United Kingdom.

form of a decentralization programmatic credit, to be discussed by the Board on May 15.

- There is a risk that the PRGF-supported economic program could go off track in the near term, partly as a result of spending pressures in the run up to the elections in 2002. Close monitoring by the IMF will help reduce this risk.

## V. CONCLUSIONS

34. The Bolivian PRSP provides a very good framework for Bolivia's fight against poverty. It is based on a participatory process that was pursued in the national dialogue, and will be continued in the monitoring of the strategy, and it provides a coherent strategy that is consistent with ambitious but achievable targeted reductions in poverty and extreme poverty. The risks to the implementation of the strategy are many, and how they are dealt with will have a large bearing on the success of the strategy. Many of the risks may be overcome if, during the current and succeeding administrations, the authorities strengthen public administration, address other structural weaknesses, increase the buy-in to the strategy both within and outside the government in the course of implementing and monitoring the strategy, and maintain the sound macroeconomic policies needed to underpin a more rapid sustained growth of the economy.

35. The staffs of the World Bank and IMF consider that the EBRP presents a credible poverty reduction strategy and provides a sound basis for Bank and Fund concessional assistance and for reaching the completion point under the Enhanced HIPC Initiative. The staffs recommend that the respective Executive Directors of the World Bank and IMF reach the same conclusion.