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Bolivia: PRSP and Joint IDA-IMF Staff Assessment; Enhanced
HIPC Completion Point; Country Assistance Strategy Progress

Report

Introduction

I would like to begin by commending the Bolivian authorities for their commitment to a very difficult reform process. Bolivia has a very impressive track record of performance as described in great detail in all the reports under discussion today. We also benefitted immensely from the very useful first-hand account of the reform process provided to us by the Vice President of Bolivia last week. His presentation gave us a new insight into the delicate balance the government has had to strike among competing interests within a very complex political and social context. I feel a special sense of kinship with Bolivia as my country, Uganda, has followed a somewhat similar path in the PRSP-HIPC process. It is interesting that while the two countries are several thousand miles apart, they share some common experiences.

The Participatory Process

In my opinion, one of the most commendable aspects of the PRSP is its broadly participatory nature. Bolivia has established a tradition in the recent past of involving a broad variety of stakeholders, largely representative of the diverse population of the country, in the process of national dialogue. Civil society involvement has no doubt enriched the process immeasurably, and will enhance implementation in the difficult political environment that currently prevails in the country. In view of the impending elections, civil society's broad endorsement of the PRSP will be important if the process is to endure, notwithstanding changes in administration. We are pleased to note that extensive follow-up of the PRSP is planned through existing and newly created social oversight mechanisms.
Poverty

The PRSP contains an excellent analysis of the poverty situation in Bolivia which reveals a significant level of poverty in the country. While the rural areas contain the bulk of the poorest groups, in urban areas where unemployment levels are high, the urban poor also account for a sizeable proportion of the poor -- about 52 percent, according to the report. In particular, the traditionally disadvantaged groups in the country are hardest hit, and they include children, female heads of households, the elderly, the disabled and indigenous groups often residing in remote locations. Bolivia's water shortage is a main source of distress for the largely agrarian country, and must be addressed quickly -- together with land use concerns -- if the problem of low agricultural yields and productivity is to be dealt with. As the Vice President pointed out last week, the country's determination to eliminate coca production in the country has had an adverse effect on agricultural incomes, thus further exacerbating poverty in the short run. An effort must be made to diversify Bolivia's exports so as to find a suitable substitute for the coca leaf for rural farmers.

Productive Capacity

We concur with the priority attached in the PRSP to expanding employment and income opportunities by increasing the productive capacity of small agricultural producers through support for micro- and small enterprise, and increased investment in infrastructure. This will need to be complemented with adequate investment in human capacity, with special emphasis on primary education and primary health care. In this respect, while there is some mention of eliminating endemic diseases in the report, we do not see any specific mention of HIV/AIDS. We would be interested in learning about the incidence of the disease in Bolivia at this time. If it is currently low, then would this not be a good time to put in place preventive mechanisms before it becomes a serious problem? We would be interested in hearing staff's comment on this.

Social Exclusion

The special problem of social exclusion and marginalization of impoverished groups, if not addressed quickly, will continue to have political ramifications and contribute to the social unrest that has plagued the country in recent months. We are pleased to note that the PRSP gives special priority to addressing this concern by empowering the poor and giving them a greater say in decision-making at the municipal level, within the context of the country's move to a more decentralized structure. Special attention must be given to promoting social integration and improving opportunities for ethnic groups and indigenous peoples. We are encouraged by the mechanisms in place to increase security and protection for the poor through social safety nets and emergency
programs to cope with natural disasters and unemployment.

Corruption

The PRSP addresses the thorny issue of corruption in a very forthright way. The PRSP recognizes that much of the corruption results from institutional constraints which will need to be addressed through specific institution building interventions detailed in the report, designed to increase transparency and accountability. However, it also recognizes that extra efforts over and beyond these institutional interventions will be called for to combat the negative perceptions that emanate from Bolivia's unfortunate association with the coca trade and its attendant problems, including money laundering. These will involve reforms of a more fundamental nature, including agricultural substitutes for the coca leaf and export diversification. While progress has been slow in this area, this is not surprising in view of the strong rigidities in the system and the powerful interests involved. The participation of civil society in the process will enhance the chances of success in the overall effort. It is, however, not realistic to expect lasting results overnight.

Monitoring and Evaluation

We agree with the joint assessment's conclusion that the poverty reduction targets are ambitious but achievable. If achieved, they would result in substantial reductions in the incidence of poverty, largely in line with the international development goals, and other improvements in social standards. While the 5 to 5 1/2% GDP growth target is somewhat higher than the country's recent experience would suggest, it is reasonable to expect that the proposed reforms, together with HIPC debt reduction, should result in growth performance along those proportions. We must bear in mind, however, the fragility of the political and social situation of the country, and its vulnerability to external developments, including natural disasters, commodity prices and devaluations in neighboring countries. These and other risks are described in some detail in the joint assessment. There must, therefore, be some built-in flexibility, and expectations must be realistic. We welcome the proposed arrangements described in the PRSP for ensuring social oversight of the anti-poverty programs by civil society groups.

International Cooperation

Bolivia has enjoyed a long relationship with the international community as it has sought to address issues relating to drug trafficking, economic reform, indebtedness and development assistance. The focus of attention will, in our view, now have to turn to trade and foreign investment, and we note that these feature prominently in the PRSP. In this regard, priority must be given to negotiations relating to the opening up of OECD markets and free trade agreements if the development policies contained in the PRSP are to be sustainable.
Completion Point

We concur with the joint assessment of the staffs of the Bank and Fund that the Bolivian PRSP provides a very good framework for Bolivia's anti-poverty crusade, and a sound basis for Bank and Fund concessional assistance and for reaching completion point under the Enhanced HIPC Initiative. With its strong track record of macroeconomic performance, and with the assurances of participation obtained from all Bolivia’s multilateral, regional, sub-regional and bilateral creditors, Bolivia has, in our view, met the conditions for a floating completion point established at the decision point. The long-term debt sustainability analyses provide a fair amount of comfort that Bolivia can absorb a reasonable level of external and internal setbacks, provided it maintains the momentum of economic reform. Bolivia has shown remarkable resilience in weathering adversity in the past, and we have every reason to believe that its capacity to continue to do so will be enhanced following debt relief, economic reform, concessional aid, enhanced trade and foreign investment.

IDA Graduation and Allocation

As the CAS document points out, Bolivia’s GDP per capita has been above the operational cut-off level for the last two years. Based on a recently completed IBRD creditworthiness analysis, Bolivia is expected to move into blend status for the next two years and gradually shift from IDA to IBRD financing over the coming years. I hope we can avoid the ironic situation of a country appearing to be penalized for its good performance. We believe that serious consideration should be given to Bolivia’s appeal to postpone or slow down the pace of its graduation from concessional lending. Otherwise, Bolivia may be forced to apply the gains from debt relief to acquiring more debt, thus defeating the purpose of debt relief.

Country Assistance Program

We broadly agree with the Bank’s proposed assistance program for Bolivia in the next three years under the base case scenario. We are confident that in the absence of any adverse external shocks or natural disasters, Bolivia’s good performance will qualify it for the base case lending scenario. We are quite comfortable with the judicious mix of policy-based and sector loans, projects, and ESW that is planned for Bolivia. We would like to see the Bank provide support for Bolivia’s PRSP with a PRSC sometime early in the CAS period. As the CAS document points out, implementation will continue to be an issue for Bolivia, given its limited institutional capacity, especially in the area of procurement. Donors can play a role in this regard by making a genuine effort to achieve
greater harmonization of their procurement policies so as to avoid burdening the limited capacity of the Bolivians.

Conclusion

We would like to conclude by congratulating staff for their excellent reports and analyses. We wish the Bolivian authorities every success in meeting their development objectives.