Board Meeting of June 16, 1998
Statement by Jan Piercy

BOLIVIA – Country Assistance Strategy

1. We welcome the opportunity to discuss this Country Assistance Strategy and to have had the benefit of the recent Country Assistance Review. Emerging from a period of severe economic and social chaos, Bolivia has compiled an impressive ten-year track record of stabilization and reform, as demonstrated by its early eligibility for the HIPC Debt Initiative. The macroeconomic environment and the structure of the economy have been completely transformed since 1985. Yet, the CAR actually makes for discouraging reading. Bolivia is one of the poorest countries in Latin America -- with social indicators which are comparable to Sub-Saharan Africa as well as enormous income inequality. While Bolivia has been a “star economic performer” in so many ways, the underlying message of the CAR (also echoed in the CAS) is that the resulting impact of economic growth and reform on poverty has been very limited. As the CAS states: “The three prongs of the Bank’s poverty reduction strategy – broad based economic growth, investment in human capital, and safety net protection – have not found firm footing in Bolivia.”

2. Our CODE discussions on the CAR underscore the complexity of poverty reduction, including the counterfactual of what the situation would have been without the involvement of IDA and other donors. In discussing reasons for past shortfalls in poverty and other performance, the CAR cites weakly designed operations, lack of Government commitment, lack of institutional capacity, and weak governance. The CAS also notes that “significant inequalities – partly related to discrimination and socio-cultural biases against the indigenous and female population – have also had a detrimental effect on poverty reduction.” As we know from our own experiences, the task of “including the excluded” is never easy. However, Bolivia’s considerable accomplishments elsewhere in the economy and the lessons learned by donors provide a solid foundation for a stronger and more sustainable development approach to poverty reduction. We therefore welcome the prominence this objective is accorded in the Government’s five-year national action plan and we particularly commend the plans to provide increased access to basis education and health care for the more vulnerable segments of society. The five-year perspective of the CAS outlines a gradual graduation program for Bolivia. We believe it is important that IDA use its remaining presence to work with Bolivian authorities and other donors to help establish and implement a sustainable poverty reduction program. In this context, we strongly welcome the proposed set of poverty-related core benchmarks for
evaluating the implementation of the CAS. We also welcome the education and health projects currently in the IDA pipeline. These reinforce the measures in social programs now underway as part of the HIPC program.

3. Bolivia’s impressive reform efforts have attracted major interest and support from a large number of donors. The CAS notes the seriousness of problems which can be posed by having “too many donors.” This underscores the critical importance of strong on-going external donor coordination to work with the Government in setting priorities, to exchange information on lessons learned, and to ensure the institutional capacity necessary to maximize on-the-ground impact of assistance. We recognize the steps which IDA and other donors have taken to strengthen coordination but also have the sense that further efforts are still needed. We would welcome staff comments on what they perceive to be the most serious obstacles to improved aid coordination and the prospects for addressing them.

4. The large active presence of other donors also underscores the importance of selectivity. We welcome the participatory process used by IDA to determine its priorities. While we strongly welcome this emphasis which the CAS places on selectivity, the absence of information on the substantial efforts of other donors makes it difficult to evaluate fully the appropriateness of IDA’s focus. An information table, like those we have seen in some previous CASs, describing the efforts and sectoral focus of other significant donors would have been very helpful.

5. The CAR recommends that IDA focus on private sector development, combating corruption, sustainable natural resource management, and targeting the altiplano and other rural areas for poverty focused activity. The CAS appears to align itself relatively well with these priorities, with the notable exception of the environment.

6. IDA’s efforts on Judicial Reform, Civil Service Reform, and Financial Sector Reform should help the Government deepen its efforts to establish an economic environment conducive to private sector development. However, we have been concerned by Government statements suggesting consideration of possible changes in the way the regulatory environment for capitalization is implemented which could pose uncertainties for new investors and have an adverse impact on private sector investment. We understand there are some issues the Government may wish to examine on incentive structure to ensure consistency between active and passive shareholders. We agree this may be a legitimate matter to explore. However, the Government should be careful not to damage the investment climate. We would welcome a staff update on their views on the capitalization program and any prospective problems. We also believe IDA’s efforts to foster good governance, and to help build strong, transparent and functioning professional public institutions, are crucial to sustaining the momentum of reform and private sector confidence.

7. We welcome the new rural strategy underlying IDA efforts to target the Altiplano and other poor rural areas. This is a core element of poverty reduction and should considerably improve the economic benefits that will accrue to women and indigenous people. With agriculture providing the most important source of employment, increased rural productivity should make other crops more attractive
than the illegal and socially destabilizing production of coca. We would have liked to see more prominence given to developing the alternative development aspects of the Bank’s rural development program including the physical and institutional linkages between rural and urban centers which are so critical to creating the markets necessary for a viable alternative development.

8. As noted in the CAR, “the environment is closely intertwined with economic growth, poverty alleviation, and cultural preference.” The deteriorating environmental conditions in both rural and urban areas pose a serious challenge. Existing legislation adopted to address environmental concerns is largely unenforced, a reflection both of very weak institutional capacity and what appears to be the lack of serious government commitment. We are very concerned that the donor community and the Government have not yet developed a coherent agenda for dealing with the environment. We therefore strongly urge the Government and donors to accord much greater priority to formulation and implementation of a comprehensive environmental agenda.

9. We regret the Government’s request that the Bank limits its involvement in the area of environment. While we note that there is a “substantial availability” of funds from other donors for environmental programs, we see little evidence of this leading to the development of the strategy for sustainable natural resource management recommended in the CAR. (It would have been helpful to have some detail on the level of current and projected Government expenditures for environment as well as the level of other donor support.) We welcome the Bank’s intention to “remain an active partner” in the environment sector, and would like to see a serious and pro-active Bank role in its policy dialogue with the Government and other donors, with the Bank using these partnerships to press the urgency of a well coordinated comprehensive environmental agenda. The development of such an agenda, and its strengthening of institutional capacity and regulatory framework, will have an important bearing on the effectiveness and sustainability of the Bank’s own efforts to ensure that the gas pipeline, mining, roads, and other projects meet appropriate environmental standards.