Bolivia - Country Assistance Strategy

I would like to start by expressing the continued and deep appreciation of my authorities to the Bank, IFC and MIGA for their support of Bolivia's economic and social reform programs. The Country Assistance Strategy (CAS) being considered today is well documented, thorough and with a candor we welcome.

Bolivia represents a case of successful and profound collaboration with the Bank and we would particularly note our special recognition of Javed Burki, Isabel Guerrero and their teams for the hard work and contributions made to my country's development efforts.

Consideration of this document offers an opportunity to share with the Board some comments and observations on Bolivia's progress towards its economic and social goals, as well as to highlight some of the areas where there will continue to be close cooperation.

Bolivian Government Ownership

This CAS describes the support the World Bank Group intends to provide to the Bolivian government's development strategy and is consistent with my government's "National Action Plan." We find it especially noteworthy that this CAS is based on that plan, itself the result of a unique "National Dialogue," a process that involved broad consultations with all sectors of society, and which resulted in poverty reduction becoming the Plan's first priority.

In view of this, the newly elected administration, which assumed office on August 6, 1997, has taken poverty alleviation as the principal guide for development planning during its five years of government. When the National Dialogue was undertaken - a vital initiative that my authorities consider will have the most significant and far-reaching effects - it established that this was the issue of highest concern among participants. The consensus established among all sectors of society is reflected in the administration's political, economic and social decisions. It also endows those decisions with greater "ownership" and "stakeholder participation." This approach by the Bolivian government was highlighted in the Bank's recent "Partnership" study.

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We are also pleased to note that CAS preparation was the consequence of an integrated and participatory approach between the Bolivian government, the Bank, and other donors and partners, and results in the Bank concentrating on those areas where it enjoys a comparative advantage. My authorities welcome the innovative format used in this CAS. It represents the new style of CAS, as recently described in the "CAS Retrospective" document. This strategy is consistent with Bolivia's efforts and policies. Moreover, this is the first CAS to cover a period of five years, identical to the period of the present elected government, further contributing to "ownership."

**Reforms Since 1985**

We think it worth emphasizing that the CAS described the situation obtaining in 1985 when, after six unsuccessful stabilization efforts by previous governments, the then-incoming administration implemented its "New Economic Policy." In September 1985 inflation had reached 23,500 percent after four years of negative growth! Other indicators were equally stark. The New Economic Policy began a series of macroeconomic reform measures the Bank called "audacious." Stabilization was achieved and modest growth renewed, reversing years of negative growth. According to the recently completed Country Assistance Review (CAR), "the significance of these accomplishments cannot be overstated." Reforms have continued since.

However, it is important to take into account that Bolivia was unable to accomplish planned growth and poverty alleviation due to an extreme shift in its terms of trade following the October 1986 collapse of mineral and petroleum prices, the country's most important foreign exchange earners. Bolivia further suffered the absolute loss of over one-third of its total exports. All will understand the serious consequences that these external shocks, which lasted for several years, had on growth and poverty alleviation.

**More Recent CAS Experience**

Economic conditions have, nevertheless, improved markedly since the mid-1980's. By 1997 a considerable degree of macroeconomic stability -- with GNP growing at an annual rate of around 4 percent and inflation continuing to fall to 6.7 percent in 1997 -- was achieved. Maintaining macroeconomic stability, however, remains a significant challenge. However, it is important to note that the growing external account deficit - 7.9 percent of GNP in 1997 - reflects an increase in imports associated with the construction of the gas pipeline to Brazil and large investments by capitalized enterprises. But, at the same time, 89 percent of the deficit is covered by direct foreign investment and mainly concessional external financing.

The administration in 1985 and successive governments understood the need to modernize the economy and foster private sector development, but believed that this could not be done at the expense of macroeconomic stability. Administrations since then maintained this policy in spite of the catastrophic terms of trade deterioration. This had its costs, but it also generated price stability and a higher real income for those who had been most affected by galloping inflation, especially the poorest sectors of society. During the period of hyperinflation, per capita income decreased by 20 percent in real terms. More recently, per capita income has remained at 1.7 percent growth, a consequence of efforts having been directed more towards stabilization and less towards private sector development.
Sectoral reforms and privatization of the large state-owned enterprises began in the early 1990's with the drafting of the privatization law and are now starting to show changes in efficiency and service standards. Along with the restructuring and privatization of the most important infrastructure sectors during 1994-1996, the government established an independent regulatory system (SIRESE) which will be further improved and strengthened. Modernization of the economy and improvement in its competitiveness has helped the growth of export oriented industries, so that non-traditional exports are replacing minerals.

Decentralization of government and popular participation, through devolution of decision-making capacity and tax resources to the municipalities has received widespread attention and will help individual and private initiative at the community level.

Inclusion of Bolivia in September 1997 under the HIPC Initiative for US$450 million of debt relief in NPV terms will provide the country with a necessary breathing space to consolidate its adjustment efforts and free up resources for investment. This is welcome as a comprehensive attempt by the international community to resolve debt burdens faced by Bolivia and others.

Bolivian authorities are committed to further structural reforms to promote private investment and higher sustainable growth. The situation has therefore changed irreversibly and the country is now in a better position to make progress in a poverty reduction effort.

**Poverty Alleviation Program**

Poverty in Bolivia is also associated with low levels of education, vulnerable health and poor nutrition. Although Bolivia and the Bank have had to have been primarily concerned with macroeconomic stability, with fiscal deficit reduction an important component, efforts were also made to allocate more resources to education and health, and to invest in human resources.

Nevertheless, some comparative figures can give us a sense of the real progress that has also been made. The infant mortality rate at 151 per thousand live births in 1976 had come down to 69 in 1997. The maternal mortality rate of 416 deaths per 100,000 live births was 390 in 1994. Malnutrition of children up to 5 years old as a percent of population of that age was 11.9 in 1993 and 8.9 in 1995. Government spending for education as a percentage of GNP in 1990 was 2.81 and in 1996 reached 4.96. In health, 1990 spending was 1.38 and reached 2.39 in 1996. While not yet acceptable, these levels, nevertheless, show a gradual improvement. The government recognizes much more needs to be done and is committed to this challenge.

It is therefore especially gratifying for my authorities to see the CAS focus on poverty reduction, which the Bolivian government has made the central goal of its National Action Plan.

As the main objective is to support the poverty reduction effort, the Bank will be focusing its assistance on three of the four development pillars established by the government: (a) Opportunity, to attain higher sustainable private sector led growth with better distribution; (b) Equity, to raise the standards of living of the poor and, (c) Institutionalization, to strengthen the institutional framework for better justice and a corruption-free administration. The fourth
pillar being (d) Dignity, to withdraw Bolivia altogether from illicit coca leaf production. These pillars represent the government's commitment to continue and deepen even more a decade of reform in Bolivia.

The Bolivian government would like to emphasize that the guidelines, commitments and implementation of its program will both ensure appropriate consideration of the environmental impacts and explore opportunities to enhance environmental benefits.

We especially welcome the increased role both IFC and MIGA are expected to play in private sector development during the period of this CAS. The attention given to projects that will enhance food security are very relevant and important, as they will be of special benefit to the country's poorest municipalities. At the same time, we urge IFC to consider how to increase its catalytic role in the promotion of private sector development. IFC has remained inactive in the last two years, despite the fact that Bolivia has an adequate regulatory framework to protect and promote private investment.

One of the risks described in the CAS are "...deep seated cultural barriers to include the excluded..." and we believe this requires some further comment. Bolivia recognizes that, like many other countries, it has ethnic, religious, cultural and other differences among its population. Nevertheless, Bolivian authorities are fully committed to the overarching goal of poverty alleviation, while respecting cultural and other factors. We believe this has been most clearly shown by the "National Dialogue" which developed a participatory consensus among all sectors of society and from which the National Action Plan was developed.

**Good Governance**

Good governance implies transparency and accountability, with democratic institutions and freedoms, and the participation of citizens in the political process as well as through the myriad organizations that form civil society and which are growing. Bolivia accepts this truth and is proud of its political parties, vigilant free press, labor unions, private sector and academic groups, and vigorous neighborhood and civic organizations.

Nevertheless, the Bolivian body politic is no more exempt from the challenges of improving governance, transparency, and accountability than other societies. Building strong institutions is one of the pillars of the National Action Plan. Thus, even though one recent study of governance had serious procedural flaws, it was the Bolivian government that took the initiative in asking the Bank and an NGO, Transparency International, to help in designing responsive measures. Bolivia is also pursuing reform of the judicial system, civil service, and customs with Bank support. We especially look forward to continuing collaboration with EDI to strengthen these efforts.

**In Conclusion**

The initial conditions under which the Bank will be operating in the coming years in Bolivia are more conducive to achieving results on the ground than at any time in recent years. Structural reforms are underway, and have the full commitment of the administration. In order
to take advantage of this, we welcome the idea of front-loading operations geared to consolidate and deepen ongoing reform efforts.

Decentralization and popular participation reforms have been major initiative, in which the Bolivian authorities are taking the lead in applying many of the best practices available. The National Dialogue has built on these efforts and allowed different segments of society to participate in defining the next stage of development efforts. This process not only assures ownership, but involved some of the poorest groups in Bolivia, who also have a say in which government projects will be implemented in their communities.

The World Bank Group and Bolivia have maintained a positive and successful partnership since the 1985 reforms. Much also remains to be accomplished. My authorities are grateful to Management, staff and our colleagues here on the Board, and want to reaffirm our commitment to continued achievement of excellent outcomes from these collaborative efforts.