

Bolivia : A Case Study of the European Union's Country Strategy Process

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This paper reviews the EC's Bolivian Country Strategy Paper and assesses it in the light of previous evaluations of the EC's aid programme in the country and the EU's overall development objectives. As this paper draws heavily upon the Bolivian Poverty Reduction Strategy it begins with a review of this document and recent critical assessments of its implementation.

Introduction

This paper intends to examine the case of Bolivia as a means of evaluating the European Commission's (EC) Country Strategy Paper (CSP) formulation process. Bolivia provides a particularly interesting case study as it has consistently pursued the IMF/World Bank macro stabilisation formula and has subsequently been a pioneer in the development of a Poverty Reduction Strategy and of a Comprehensive Development Framework. As we will see the EC's CSP (C(2002)1875) draws heavily upon Bolivia's Poverty Reduction Strategy Paper (BPRS) and therefore this paper will begin with a review of its major features and of the weaknesses that have been identified. But it will also attempt to assess whether the CSP has responded to a previous critical evaluation of the EC's Bolivian aid programme and whether it fulfils the commitments of the European Union's (EU) broader development policy. It is with a brief outline of recent EU development policy changes that the paper begins.

European Commission Development Policy Objectives

The EU's development policy objectives were detailed in 2000 (EC 2000b) and identify poverty reduction as the EU's priority. However there remains some ambiguity (see Dearden 2002), with the document recognising that poverty reduction is a multi-dimensional problem requiring access "to adequate food supplies, education and health, natural resources and drinking water, land, employment and credit facilities, information and political involvement, services and infrastructure." Nonetheless the EC seeks to exploit its 'comparative advantage' in aid delivery and has therefore decided to focus upon seven broad areas of activity - trade and development, regional integration, transport, rural development, health and education, institutional capacity building and macro economic budget support. The latter reflects a general desire to shift support away from project aid towards broader sectoral and macro support; recognising the fungibility of aid. In its development policy the EC also places an emphasis upon 'coherence', 'coordination' and 'complementarity'. Development policy should be coherent in regard to the EU's other policies, in particular in its approach to international and bi-lateral trade negotiations. Aid policy should also be coordinated and complementary to the aid programmes of other donors, including the national programmes of the member states.

Central to the implementation of the EC's development policy are the preparation of Country Strategy Paper (CSP). These are intended to review the social, economic and political situation of each recipient country and to assess the performance of previous EC aid programmes. These documents then provide the framework for detailed aid programmes; project, sectoral and structural. They are a product of discussions with the recipient government, to ensure "ownership", and other donors, including the Bretton

Woods institutions and EU member states. Within the Commission the Interservice Quality Support Group (iQSG), composed of representatives of all Directorate Generals involved in the Community's relations with developing countries, has responsibility for ensuring that CSPs demonstrate consistency, minimum standards and fulfil the objectives determined by the group of External Relations Commissioners, which in turn reflects the overall development objectives of the Community.

Thus the national CSP's are expected to demonstrate a central poverty focus, within the context of a complementarity with both other donors programmes and the recipients national medium term development strategy, of which the Poverty Reduction Strategy will be the major component. At the same time they should include a response to previous evaluation results and provide clear indicators to provide a future assessment of programme performance.

EU Latin American Relations

Although the EU is Latin America's second most important trading partner and second largest investor, it was with Spanish accession to the EU in 1986 that the importance of EU relations with Latin America gained prominence. Since 1986 this has been reflected in an 18% increase in aid to the region and a doubling of trade between 1990 and 2000. EU investment in Latin American also increased significantly from \$13.3 bn. (1996) to \$42.3 bn. (1999).

The EU's relations with Latin America have regional, sub-regional and bi-lateral dimensions. The main regional dialogue is with the Rio Group, which was established in 1986 and now includes all Latin American countries. This concerns itself both with economic and broader political relations. The sub-regional grouping focuses upon

Mercosur and the Andean Community, of which Bolivia is a member. The Andean Community, which was created in 1969 with the Cartagena Agreement (CAN), also includes Colombia, Ecuador, Peru and Venezuelan. EU-CAN relations were governed by the 1993 EU-Andean Community Framework Co-operation Agreement, which has recently been revised. This Agreement is aimed at promoting trade, investment, finance and technology transfer with the EU, whilst recognising the Andean countries' development status. Through this agreement to the EU also intends to support Andean sub-regional integration. The political dialogue has concentrated upon regional integration, democracy and human rights and, particularly, anti-drugs issues. The latter has been supported by €110 m. of funding by the EU.

As a member of the Andean Community Bolivia benefits from the General System of Preferences, which grants duty-free access to the EU for exports of industrial goods and a number of agricultural products. This results in 90% of CAN exports entering the EU market duty-free. The current scheme will be revised after 2004.

Bolivia

Bolivia has the lowest per capita income in Latin America at \$2,355 (1999) with 61% of the population living below the national poverty line; in comparison with a Latin American average of 36%. The incidence of poverty is greatest amongst the indigenous population, women and in the rural areas, although in absolute numbers it is greatest in the urban areas (52%) as a result of urbanisation. It is the prime cause of food insecurity. Traditionally an economy dominated by the mining industries (tin, silver and zinc) it has recently diversified into oil and gas. It possesses the second largest reserves of natural gas after Venezuela. However the urban economy is characterised by a

‘dualism’ between the modern service sector and an informal low-wage trading/domestic service sector. Agricultural production is dominated by subsistence farming, constrained by water shortages, poor road infrastructure and problems with land ownership rights.

Bolivia has been undertaking the ‘Washington consensus’ structural reform programme since the mid-80s; liberalising markets and opening up the economy. Domestic prices were decontrolled and the labour market deregulated. A low uniform import tariff was adopted and the currency devalued with adoption of a crawling-peg. The free movement of capital was established, an Investment Law for foreign investment adopted and interest rates decontrolled. The Central Bank was given independence in its regulation of monetary and exchange rate policy. Fiscal reform reduced public expenditure and increased the tax base, narrowing the government budget deficit, whilst monetary policy was tightened. A programme of privatisation has been pursued and resources reallocated to local municipalities. By 1999 the municipalities were responsible for 21% of public investment. In 1997 it became eligible for the HIPC Initiative (Heavily Indebted Poor Country) providing debt relief which will be worth \$2.3 billion over 40 years to Bolivia, while other aid flows are expected to total \$1.87 billion over the years 2000-06.

Although it has achieved a growth rate averaging 4% over the last decade its performance has deteriorated significantly over the last three years as a result of adverse climatic factors and the general deterioration in the world economic environment. Public finances remain problematic, with a budget deficit of 2.3% of GDP and an accumulated short-term debt of \$1.4 billion. Government support for the failed national pension scheme remains a particular burden. By 2000 formal-sector unemployment had

reached 180,000, with another 470,000 working less than 20 hours per week; but it is estimated that 69% of employment is in the informal sector.

Even before the current recession there had been little success in reducing poverty - between 1976 and 1992 the proportion of the population below 'basic needs' only fell from 85% to 70%. Bolivia's income distribution also remains one of the most unequal in Latin America - the Gini coefficient had risen from 46.2 in 1990 to 58.9 in 1997. Overall Bolivia's progress in meeting the International Development targets has been very mixed. While primary school enrolment rates have increased the drop-out rate has not improved (30%) and the quality of education remains poor as a result of low teachers' salaries. In health, Bolivia continues to have the highest mortality and morbidity rates in Latin America, and 26% of children show delayed growth from malnutrition. Similarly in housing 40% of dwellings were found to be unsatisfactory (1992), with only 1% of rural households have access to domestic sanitation. Nonetheless life expectancy has increased to 62.1 years (1999) from 60.6 in 1995.

Bolivian Poverty Reduction Strategy

Although the 'human development' dimension of economic progress was recognised from the mid-90s in government policy "the conceptual advances were not matched by actions ensuring effective results in poverty reduction"(p.25 BPRS). Institutional weaknesses, inadequate control mechanisms and the need to establish a new relationship with international donors were all apparent. By 1999 Bolivia was successfully achieving 100% of its HIPC 1 targets across health, education and rural development.

The Bolivian Poverty Reduction Strategy (BPRS)(2001) was the product of a

substantial consultative exercise (the 'National Dialogue') and has four main strategic objectives - to enhance employment and income opportunities, enhance social security, increase the productive capabilities of the poor and promote 'social integration'. Employment/income policies will focus upon the productive capacity of small agricultural producers through broadening access to land, the promotion of diversification and development of micro enterprises and the provision of micro finance. Investment will be concentrated upon rural infrastructure, including electrification, road construction and irrigation. Priority will also be given to primary education, basic health provision and sanitation. There will also be emergency employment programmes to reduce the economic vulnerability of particular social groups – i.e. the elderly and children. Finally promoting social integration will be achieved through a programme of administrative decentralisation and 'popular participation', including support for civil organisations. Echoing EC development objectives there are also the 'cross-cutting' issues - policies to promote opportunities for ethnic groups and womens' rights and environmental management - and recognition of the need for institutional reform which "combats corruption and guarantees competitiveness, reduces uncertainty and provides equal opportunities"(p.59).

The EC has given increasing emphasis in its development policy to the issues of the rule-of-law, human rights and good governance. At the same time the EC recognises the importance that needs to be placed upon the 'ownership' of any development policy by the developing country, an ownership that will ensure political commitment and which requires popular participation if it is to genuinely reflect social priorities. To achieve these objectives funding is being directed to 'capacity building' - support for institutional reform through technical assistance and training.

The BPRS was itself a product of comprehensive public participation (National Dialogue 2000) and this confirmed the importance of institutional reform. Modernisation of public administration began in 1990 but the reforms "lacked continuity and implementation was very precarious" (BPRS p.139). Corruption is specifically identified as a continuing and serious problem (BPRS p.157). In 1997 Bolivia had the second worst incidence of perceived corruption (Transparency International). In response the government has adopted a National Integrity Plan, implemented since 1999 - emphasising judicial reform, structural changes such as the independence of National Customs and transparency in the systems of public administration. Decentralisation to the municipalities, begun in 1994, has also raised the issue of political corruption and managerial competence at these more local levels. Some of the larger municipalities have been subject to state intervention as a result of financial mismanagement.

In terms of public administrative reform new Civil Service Regulations, and an Integrated Management and Administrative Modernisation System (SIGMA) have all been adopted. However a System for Monitoring and Evaluating Performance-based Government Management (SISER) did not survive beyond 2002 when both donors and management decided to withdraw funding. The BPRS recognises that the successful implementation of these initiatives requires an ongoing commitment from the various government divisions. 'Rule-of-law' issues have also been addressed with a succession of measures to ensure the independence of the judiciary, updating the Civil and Criminal Codes and management reforms.

Finally the BPRS specifically outlines the role of "civil society" in the social control of public administrations, through the creation of Vigilance Committees and Local

Consultative Committees for local monitoring, local control through School Boards, Local Health Directorates and producer associations and other civil associations. From these organisations will be drawn representatives supervising national public agencies. The EU has emphasised the role of Non-Governmental Organisations (NGOs) in development strategies and their participation is explicitly reflected in these organisational arrangements. However, the EC focus upon NGOs is also intended to provide an alternative mechanism for aid delivery in the context of 'failed states'.

Of the foreign aid available for investment the BPRS allocates 48% of it to the employment/income objective and an additional 34% to 'capacity' enhancement. By contrast 'safety and protection of the poor' is allocated 4% and 'cross-cutting' objectives 5%. However too much should not be read into these figures as the employment and capacity objectives themselves contain a commitment to a poverty focus.

The programme of decentralisation to the municipalities is an important component of the administrative reforms and HIPC II funds will be allocated directly to these municipalities, 70% according to poverty criteria (unsatisfied basic needs). To ensure the efficiency of the investment the BPRS proposes moving to a result-orientated management system, with an emphasis upon effective evaluation. Priorities should move from historic allocations to greater flexibility in allocation, reflecting performance and the BPRS priorities. At the same time the BPRS recognises the importance of sustainability in investment, estimating that the projected investment of \$4.3 bn. over the period 2001-2006 will require \$1.7 bn. in recurrent expenditure. However such recurrent expenditure is currently met by severely constrained domestic funding. The lack of domestic counterpart funds has been a recurring cause of the slow

disbursement of aid. Although the private funding and maintenance of some public infrastructure is proposed, particularly in regard to highways, a funding gap nonetheless remains. The BPRS therefore calls for greater flexibility in regard to the provision of foreign aid to accommodate both the change to results-orientated project funding and to ensure the sustainability of public investment, with changes in counter-part funding requirements and the financing of recurrent expenditure. These approaches are certainly consistent with the EC's shift of emphasis to budget support and its own focus upon results-orientated aid management.

The BPRS will be implemented within the context of a continuing commitment to 'macro economic balance' achieved through the established policies of structural reform. Although it is recognised that economic progress could be compromised by external shocks such as climatic change (El Nino), or a further deterioration in the terms of trade, these policies are expected to deliver a growth rate of 5% to 5.5% per annum over the succeeding 15 years. During this period the percentage of families falling below the poverty line is expected to fall from 62.4% to 40.6%.

To monitor progress a number of performance indicators have been proposed falling into three major groups – intermediate, impact and outcome. In the short term 'intermediate' indicators are to be adopted to monitor programmes and projects. These fall into four categories, reflecting the BPRS's four broad objectives - employment opportunities and income, capacities, security and participation - together with the cross-cutting themes. Employment/income includes rural development programmes (measured by indicators such as the rate of growth of non-industrial production and the area under irrigation), road infrastructure (percentage of primary road network paved) and microfinance (percentage of municipalities with access to financial services).

Productive capacities includes education programmes (indicators including spending on schools, number of educational centres) and health (percentage of children with low birth weight, percentage of households with piped water and access to basic sanitation). The security objective focuses upon land ownership and is assessed by the area for which land titles have been established. Participation involves qualitative assessment through the proposed three-yearly 'National Dialogues'. The cross cutting objectives will be monitored through indicators such as the number of ethnic micro enterprises (ethnicity) and the percentage of women with access to literacy programmes and basic health insurance (gender). The environmental objective focuses upon the completion of plans for water resources and flood control, with a quantitative measurement of the increase in income as a result of wildlife management programmes.

Longer-term evaluation is undertaken through the employment of 'outcome' and 'impact' indicators. The 'impact' indicators offer a longer term view of improvements in various economic and social determinants of the level of poverty, while the 'outcome' measures provide a medium term assessment. Outcome indicators include per capita family income, infant mortality rates, school attendance and student performance in languages and maths. The impact assessment is to be based upon the rate of growth of per capita income, the index of poverty at national, urban and rural levels, and the proportion of the population with more than eight years schooling. Formal programme evaluation will focus upon the BPRS priority areas of transport, education, health insurance and childcare.

Thus the BPRS establishes a comprehensive structure of short and long-term quantitative indicators underpinning the continuous process of monitoring and evaluation.

International Cooperation

To achieve the effective implementation of the BPRS it called for international donors to play their part by introducing flexibility into the disbursement rules, simplifying and harmonising their administrative requirements and adapting their aid programmes to the priorities defined in the BPRS. One criteria for assessing the effectiveness of the EC's approach to its assistance programme to Bolivia will be to ask how far this offers a response to this request.

The Bolivian government has established a 'New Framework of Relationships' with the donors to ensure that assistance is coordinated and channelled to meet BPRS priorities. Joint financing with the government is a central feature of these arrangements, together with a preference for more direct budgetary support to enhance flexibility in resource allocation. There is specific encouragement that donors should "simplify and harmonise procedures for contracting, financing management and control, assuming national (ie. Bolivian) regulation of these procedures where possible" (para 850). Similarly it called for the evaluation mechanisms of the BPRS to be central to the monitoring and evaluation procedures of the donors. The government also sought the 'untying' of aid wherever possible. Finally the Framework encourages the international donors to delegate greater authority to their local agencies to encourage flexibility and streamline programme implementation. Implementation of the new Framework is expected to make a major contribution to increasing the rate of disbursement of funds and improving the ability of public agencies to absorb aid.

BPRS Assessment

The BPRS has been regarded as the core expression of Bolivia's Comprehensive Development Framework, itself a 'test bed' for the new approach being taken by the international donor community. As a result it has been subject to considerable scrutiny, with a recent comprehensive evaluation by the World Bank (2003). A number of weaknesses were identified in this report - the dangers of fragmentation through devolved 'over-municipalisation', unrealistic growth assumptions, failure to prioritise amongst existing programmes, partly as a result of donor advocacy of their own projects, and its failure to address the more intractable and politically sensitive development issues (e.g. inclusion of indigenous people, land redistribution, tax, corruption). A lack of political support for the BPRS and the reform agenda is seen as a central problem, with the BPRS being superimposed upon the existing political process. Indeed Bolivia has a long history of formulating comprehensive development plans, of which the BPRS is but the latest example. The question has been raised as to whether the BPRS is merely as response to the demands of the international donors, a prerequisite to qualify for access to HIPC II funds, rather than the expression of a national development strategy to which there is political commitment. In particular the environmental and gender agenda was regarded as one that was very much imposed by the international donors.

However the report also identifies a number of significant weaknesses in the role of the international donor community. Problems exist with the committed distribution of funding to support the BPRS – excess funding for institutional capacity and cross-cutting programmes and under-funding for productive capacity, employment and income programmes. Problems also continue with the failure to coordinate aid; there are still 850 separate existing projects. An element of competition between aid agencies

still exists in some cases, and even where there is joint-funding difficulties can arise from differing procurement requirements. Further these 'cooperation islands' can undermine national policy – e.g. “roads and municipal institutional capacity-building, in which centrally managed approaches or sectoral programmes – pushed by sector units in the headquarters of multilateral agencies – continue to impose themselves.” (p.44). The EU was specifically identified for its failure to coordinate its aid programmes across the EC and the Member States.

A recent appraisal of Bolivia's progress in adopting results-orientated public management (Montes 2003) has confirmed many of these weaknesses. Again he identified the central problem as a lack of political commitment to reform, with a public administration compromised by clientalism and patronage resulting from the unstable coalition politics of Bolivia. He concluded that the reform programmes have had little impact upon the performance of the civil service, with a lack of credibility in personnel management, budgeting and financial controls. He found Bolivian public administration to be characterised by “pervasive political interference, high staff turnover, non-compliance with formal procedures and systematic corruption” (p.4). The weaknesses of the budgeting process were such that it was difficult to incorporate the strategic recommendation of the BPRS or to carry out evaluations, as the monitoring mechanisms were too weak, especially at the municipal level (IMF-IDA 2001). The Audit Office produced quality reports but with no subsequent action. The Institutional Reform Project had “left budget processes untouched, introduced poor organisational and personnel reforms and a weak national evaluation system.” (p.23) This project had ignored the recommendations of the World Bank (2000) review that had called for the de-politicisation of personnel management, the strengthening of central oversight

capacity, the enhancement of ‘citizen voice’ (i.e. civil society) to exercise control and learning from the experience of giving autonomy to the regulatory agencies.

In terms of the role of the international donors Montes confirmed the difficulties of ensuring a coherent and coordinated approach, despite Bolivia being a ‘pilot’ for a Comprehensive Development Framework. Few sector-wide programmes had emerged as donors continued to work through projects; this approach was even adopted for the Institutional Reform Project. The project approach had contributed to a “fragmentation of government Ministries, the creation of ‘donor-specific’ parallel structures and distorting pay scales...The strategies of these projects have not been comprehensive and have focused on activities not outcomes... with little feedback from civil society.” (p.27). In part this approach can be explained by the reluctance to provide more general budget support in view of Bolivia’s poor capacity for financial management. Nonetheless he suggested that the adoption of strictly conditional budgetary support might force the pace of budgetary reform.

Although donors have made a significant contribution to supporting the dialogue between the government and civil society and the de-politicisation of some areas of public administration (e.g. Customs, Ombudsman, Civil Service Superintendency), they have been reluctant to address the core political problem and often lack the local ‘political knowledge’ to be sufficiently proactive. Montes concluded that donors were more effective when strengthening the voice of civil society than when replacing it and should focus their evaluations less upon formal rule changes than actual compliance and outcomes. But he concluded that “at this point it is doubtful that many of the proposed BPRS policies will be implemented given the absence of a strong government champion, the poor institutional environment and the high level of corruption.” (p.18).

European Aid

Technical and financial assistance is currently provided under Council Regulation (EEC) 443/92, which covers both Latin America and Asia. This regulation emphasises targeting at both the poorest countries of the regions, and the poorest sections of their communities. In particular it argues for focusing upon those areas where “domestic, economic and human resources are difficult to mobilise, but which are of strategic importance for the development of the countries concerned or for the international community as a whole”.

EC development assistance to Bolivia began in the 1970s with support for a number of uncoordinated NGO initiatives, but from 1982 this was supplemented by a series of major projects, under technical and financial cooperation instruments (TFC), and food aid. Between 1970 and 1994 EC aid totalled €300 m., of which 60% was provide under TFC, 29% as food aid and 9% as co-financing with NGOs. The main programmes were focused upon integrated rural development in the Altiplano (60%) and flood protection in the Pirai river valley and Lake Titicaca basin (15%).

In 1992 the EC sought to revise its aid programme in Bolivia seeking to diversify the instruments employed and to extend its activities into new areas of activity. This process presented considerable difficulties and, as we will see, is not necessarily completed. The first ‘Memorandum of Understanding’ was signed in 1994, with assistance focusing upon poverty reduction, administrative and institutional reform, private sector development and regional integration. Direct food aid ended in 1995 to be replaced by ‘food security’ projects administered at the municipal level or as a sectoral programme (PASA) by the Ministry of Agriculture offering institutional

support, investment and micro finance. Recently the EC has also been focusing upon water and sanitation, education and health and in providing support for the Alternative Development Strategy for the coca growing region of Chapare and the outward migration areas of the Altiplano.

The EC, in its own right, accounted for 5.4% of Bolivia's grant aid between 1990 and 2001 (c.f. 28% from USAID) and has been averaging €40-50 m. per annum in recent years. The EC has also contributed \$14 m. to HIPC specifically for Bolivia.

EC Aid Evaluation

In 1995 a highly critical evaluation of EC aid to Bolivia had been published (Canessa & Kaeppler). Many of the criticisms reflected more general problems with the EC's administration of the Community's development policy (see for example Montes et al 1998) and which subsequently lead to administrative reform (European Commission 2000a). The initial projects were very much a learning experience for the EC in a difficult economic and political environment. Hyperinflation, poor procedures and weak management structures lead to loss of control. All of this activity took place within the context of a lack of a coherent country strategy. Projects that were initially emergency measures were simply replicated as a successful formula, encouraged by similar requests from the Bolivian government.

Thus the rural development projects, intended to provide drought relief in the Altiplano, ultimately absorbed €100m over 15 years; 20% of all EC funds for rural development in Latin America. No attempt was made to assess whether "the means brought to bear were excessive in relation to outcomes". Serious questions were raised in the report as to the feasibility of significantly improving agricultural productivity in

this area given its extremities of climate. Similarly, although the food aid programme, which was worth €89 m. from 1983-92, provided significant humanitarian relief, it was doubtful whether it made any serious contribution to addressing the underlying problems of insufficient purchasing power.

In total 2,000 km of roads and 5,000 ha. of land were irrigated, but with only limited local impact, and serious problems arose from the failure to consider the sustainability of these projects. Failure to maintain roads and flood defences undermined the value of many of the EC financed infrastructure projects.

Problems also arose with the second major component of the rural development initiative, the provisions of micro credit in a revolving fund. In practice the problems of absorptive capacity were considerable. As a result less than half the funds were disbursed and two-thirds of loans became bad debts.

Turning to the less significant drug control budget line, here the report again noted “ambitious objectives and the lack of a clear strategy”. There was a failure to address the political and social context of coca production, with the Bolivian government’s efforts at coca eradication regarded as a political gesture to appease the US. The projects undertaken could equally well have been funded under the rural development and infrastructure budget heads.

Finally the report considered the co-financing of the NGOs. Although over 500 projects had been supported none had any formal system of evaluation. However as these projects were low cost and closer to the beneficiaries the authors felt that there was a higher probability that they had achieved their objectives.

Overall the report identified a number of significant weaknesses. Projects were often found to be based upon unrealistic assumptions, with no risk assessment. All

projects failed to devote sufficient attention to their long-term viability, with the PAC rural development schemes neglecting product marketing and economic sustainability. There was little focus upon efficiency in the employment of resources, with excessive expenditure upon redundant capital equipment and expatriate technical assistants in many infrastructure projects. These infrastructure projects dominated the EC's aid programme as this offered the easiest and most familiar strategy to maximise aid disbursement, without any clear country development strategy.

None of the projects had "adequate and systematic procedures for assessing the impact .. nor even reliable base data". The available data focused solely upon inputs and physical outputs e.g. miles of road. Monitoring by the EC had been improvised and Brussels supervision "scarcely a functional arrangement". The "sharing of tasks between Brussels and the Delegation was far from clearly defined and coordination between the units in Brussels inadequate."

During much of the period examined there was no permanent EC representation in Bolivia with the result that the EC had little influence in donor discussions. EC aid was also regarded as 'soft' in that it had few conditions. With the establishment of a Delegation and the changes in overall EC aid policy these conditions changed. Further from 1992 the EC sought to widen the scope of its assistance programme in Bolivia although traditional infrastructure project were still dominating in 1995, with other areas of activity (e.g. democratisation) still "isolated and insignificant".

The reports made four broad recommendations, calling for a more careful choice of sectors and forms of intervention, clearer definition of the EC's role vis-à-vis Bolivia's own development policy, stricter management of resources and more effective monitoring and evaluation. It called for a clear poverty focus, an emphasis upon the role

of the private sector and the ‘harmonisation’ of activities (consistency) with the application of the most appropriate instruments. Overall it identified the need to avoid over ambitious projects and to ensure that all activity took place in a coherent development framework. It is to provide such a coherent framework that the EC has placed such emphasise upon the creation of Country Strategy papers.

Country Strategy Paper

As would be expected the European Commission’ s Country Strategy Paper (CSP) for Bolivia (C(2002)1875) draws heavily upon the BPRS and clearly seeks to ensure that the EC's programme of assistance contributes to the Bolivian government's strategy. The poverty reduction strategy reflects the professed primary focus of EC development policy, as does the emphasis upon the role of the private sector, institutional strengthening to achieve ‘good governance’ and the ‘rule-of-law’ and the participation of civil society to achieve ‘ownership’ of the development strategy. In particular the CSP welcomes the emphasise in the BPRS upon the decentralisation to local authorities, the allocation of funds to these local communities based upon poverty criteria and the "institutional channels of consultation with civil society"; all within the context of a continuing commitment to macro stability. Nonetheless the CSP notes the limited success of the Bolivian government in the past in addressing social inequality despite its commitments in this regard since the 1990s. At the core of this problem the CSP sees "institutional weaknesses", an issue addressed in the government's own BPRS. But it also expresses concern at the lack of trust between government and civil society, reflected in continuing social protest, and the weaknesses of civil society organisations themselves, as trade union power declines and migration erodes the

influence of traditional rural representative organisations. It also expresses some doubts as to the funding assumptions underpinning the BPRS - "funds to implement the strategy may not be as ample as originally predicted" - which will require a clear set of priorities delivering tangible results.

The CSP itself identifies four priority areas for government action. Two are shared with the BPRS - consolidating decentralisation and reform of central government institutions and procedures, including anti-corruption measures. However the other two priorities do not receive significant attention in the Bolivian government's own development strategy - combating the cultivation and trafficking of coca and the strengthening of the private sector's regulatory regime.

The CSP's review of Bolivia's performance is, as would be expected, more critical than that of the BPRS. The completed privatisation programme has failed to deliver the expansion in transport capacity that might have been expected and overall the privatised companies returns upon capital remain low, at 6%. This may underlie the emphasise in the CSP upon reform of the regulatory system, although this remains unclear. Overall the private sector is seen as weakly capitalised, risk averse, uncompetitive and supported by state purchases. Meanwhile the financial system suffers from recurrent crises, requiring state intervention. The budget deficit, 56% of which is financed externally, remains a major constraint on government activity. Thus health expenditure has fallen consistently, in real terms, over the last ten years. Although support for the pension scheme is now accounting for 12% of total government expenditure, it only covers 20% of the relevant age group. Overall the response to recurring economic crises has been ad hoc, the latest being the creation of 70,000 jobs in an emergency programme.

While expansion of the gas exporting industry offers substantial economic potential, the CSP expresses concern that this may lead to one-product dualistic development - an economy dominated by a capital intensive exporting industry with few internal multiplier effects. A broader development policy based upon strengthening the internal market and expanding employment through increased domestic and foreign investment, is regard as essential.

In terms of the EC's 'cross-cutting themes', the CSP recognises the progress in improving womens' access to education and health care, but also observes that the "Vice Ministry of Gender does not act strategically." The environment receives greater attention as the CSP notes the strong links between environmental degradation and poverty. The problems of desertification in the mountainous rural areas coinciding with the greatest incidence of poverty. It applauds the incorporation of disaster management into local planning, funded by the transfer of funds from central government to local municipalities and recognises the role of Bolivia as a pilot country for a National Sustainable Development Strategy supported by international donors. Finally the CSP emphasises the importance of Bolivia in the context of regional integration - one of the recurring themes of EC development policy and regarded as one the Commission's particular areas of expertise. With its membership of both of Latin Americas trading blocks (Mercosur and the Andean Community) and its strategic geographical position, it is a crucial player in regional integration. In support of its regional agenda, expressed at the Rio Summit, the EU is particularly concerned to enhance Bolivia's inter-continental road infrastructure.

In terms of the EC's aid programme three broad priorities are identified - improving access to services and sustainable livelihoods, enhancing growth and regional

integration. Having reviewed the aid programmes of the EU's member states, those of other multilateral agencies and having discussed priorities with the Bolivian government, in the context of both the BPRS and the 'New Framework of Relationships', three principal areas of cooperation for the period 2000-2006 were chosen - water and sanitation projects (€40-45 m.); employment development in coca and depressed mining areas (€18-20 m.) and the Santa Cruz - Puerto Suarez highway (€50-55 m.). With other more minor projects supporting institutional reform and capacity building, promotion of human rights and gender equality etc, the total aid package totals €126 m.

Although the CSP seeks to follow EC policy in moving towards sectoral support, with implementation delegated to the local administration, it expresses reservations as to the Bolivian government's ability to ensure adequate management and financial control. However it intends to ensure that a partial or full move to sectoral support can be introduced, beginning with the water and sanitation programme, if institutional reforms prove successful. The food security programme is already administered through the Bolivian Ministry of Agriculture.

Assessment of the CSP

The CSP identifies two strategic objectives for the EC's Bolivian policy - contributing to the regional objectives of the Rio Summit process and supporting the poverty reduction objectives of the BPRS. It is the commitment to the development of regional integration that justifies the EC 's largest individual aid project - support for the construction of the Santa Cruz - Puerto Suarez highway - which is regarded as a crucial international road link. It is perhaps notable that this substantial commitment is not

placed within the context of its poverty impact, other than the claim that it will benefit agricultural activity on the eastern region. There remains the possibility that this substantial project still reflects the bias towards the replication of previous infrastructure programmes identified in the 1995 Evaluation Report.

The EC's commitment to internal policy coherence, in particular the relationship between its trade and aid policies, is only poorly reflected in the CSP. It does not attempt to address the trade dimension of EU-Bolivian relations, other than support for "Bolivian economic agents... to take full advantage of the competitive margin granted by the GSP (General System of Preferences)". This despite the priority given in the BPRS's discussion of the importance of market access liberalisation, through free trade treaties, to provide long run sustainability of development policies (BPRS para. 834). Clearly the CSPs would have difficulty accommodating, at the individual country level, trade relations issues that are addressed in wider regional or international groupings eg. WTO, Andean/Mercosur. Nonetheless this leaves individual CSPs, principally authored by Delegations, in something of a policy vacuum and may in part reflect the organisational divisions present in the Brussels Commission, which is responsible for international trade negotiations.

By contrast considerable attention is paid to policy coordination and complementarity. As already observed the CSP includes a comprehensive review of the aid programmes of the EU member states and other multilateral donors and this informs its choice of the areas of activity. However the issue of 'comparative advantage', rather than complementarity, is not addressed and reflects the failure to discuss in any detail the past performance of the EC's Bolivian aid programme. The CSP claims that the 1995 Country Evaluation (Canessa & Kappler) confirmed that "EC aid made a useful

contribution and normally fulfilled the objectives of the Financing Agreements." (CSP p.18); a perhaps generous interpretation of the report. However it does acknowledge that problems were identified with the complexity of the implementation procedures and, more significantly, that in some cases there were questions about the long-term sustainability of projects and programmes arising from "limited provisions for sector conditionality". Certainly the 'Memorandum of Understanding', providing the guidelines for the implementation of Community cooperation in Bolivia, specifically requires the government to demonstrate the adequacy of complementary recurrent domestic funds, maintenance capacity and effective management systems, before the EC will commit support to programmes. These issues will become more crucial as the EC shifts towards broader and more flexible sector funding. Nonetheless, addressing the serious problems identified in the 1995 Evaluation Report in regard to project risk assessment, implementation and evaluation, is not given the emphasis one might expect.

The organisational problems of complementarity are specifically addressed in the CSP. The Bolivian government has established a donor coordination system, the 'Consultative Groups', as part of its BPRS implementation and 'New Framework'. This group meets annually; although the qualification, 'in principle' (CSP p.24), raises some interesting questions. Further working groups meet to consider progress at the sectoral level. Four groups and seventeen sub-groups are concerned with the BPRS; of which the Netherlands coordinates for BPRS implementation and Denmark for 'institutionality' and anti-corruption. In response to the EC's commitment to improved 'internal' coordination the European Commission's local Delegation has also established a system of liaison with the embassies of the EU's Member States as outlined in Annex 8 (CSP).

This coordination is intended to compliment the existing coordinating bodies and focus upon those sectors where the EC and its Member States have significant programmes. To effectively influence the content of projects the Delegation sees it as essential that there are working level coordinating meetings in anticipation of the annual programming consultation exercise. But it is also intended to achieve the political objective of increasing the EU's influence at the policy level, through ensuring a collective view in discussions with the Bolivian government when this diverges from that of the World Bank/IMF. It may also address the problems that are arising from the diminishing capacity of some bilateral donors to cope with the increasing complexity of aid provision within the new more comprehensive approach to development assistance.

To address the EU's commitment to address the cross-cutting themes of human rights, gender and environment, together with issues of 'good governance' (i.e. corruption), the Delegation proposed the appointment of a 'lead donor' from amongst the Member States to advise on their application. By May 2002 only the UK had accepted responsibility for 'leading' on gender issues. The 'cross-cutting themes' appear to be presenting as many problems in their treatment for the Commission and its Delegations as they are presenting to the Bolivian government. "The BRPS still reflects the tension that exists between treating these subjects as cross-cutting issues and treating them as individual sectors." (BRPS para. 870). While in the CSP - "In practice project managers ... are not always aware of these issues or indeed how to include them in the design and implementation" (CSP p. 60). These difficulties are probably reflected in the rather cursory treatment of cross-cutting themes in the CSP.

The EC in its development policies, has placed increasing emphasise upon 'needs'

and 'performance' criteria in allocating aid as it moves towards increasing conditionality in its assistance programmes. Thus in the Cotonou Agreement which covers the African, Pacific and Caribbean grouping of developing countries, the needs criteria include per capita income, population size, economic and social indicators (Human Development Index), level of indebtedness and dependence on export earnings. Performance indicators include progress in the implementation of institutional reforms, use of resources, effectiveness of implementation of existing programmes, poverty alleviation, sustainable development and macro and sectoral economic performance. The comprehensive set of quantitative indicators forming an integral part of the BPRS evaluation structure could meet EC performance assessment requirements, although some critics have placed an equal emphasis upon qualitative assessments. Given the importance of reducing any additional administrative burden imposed by external donor requirements, recognised both by the EC itself as well as identified as a problem by the BPRS, an effective BPRS evaluation framework could provide the basis for any EC monitoring of Bolivian performance. Indeed given the approval of the BPRS by the World Bank and its preparation to meet World Bank requirements, here we have the basis for an international consensus as to a common assessment criteria. In the case of the Bolivian CSP full advantage is indeed taken of the indicators generated by the BPRS to assess the performance of the individual programmes that the EC has chosen to fund.

Conclusion

The Bolivian CSP comprehensively reflects the new approach to the implementation of the EU's development strategy. Through drawing heavily upon the World Bank

approved BPRS it ensures a strong poverty focus and clear policy coordination with other international donors. It offers a more critical appraisal of Bolivia's economic and social performance than that suggested in their own BPRS and outlines the mechanisms for the implementation of the EC's own programmes, including clear assessment indicators. Nonetheless a number of aspects are worthy of note.

Despite the emphasis upon complementarity with other donors and references to the BPRS the reasons for the choice of programmes still remains unclear. There is no reference to the 'value-added' that the EC is bringing to these particular programmes, reflecting the very cursory reference to previous evaluations of the performance of the Bolivian assistance programme. The choice of an 'alternative development' programme to be implemented in the illicit coca producing areas appears driven by the EU's concern with its own global anti-drugs policy, building on the EU-Andean 'specialised drugs dialogue' which was signed in 1995. This may be an interesting example of the reality of the interaction of development and wider external relations considerations. The subsuming of the EU's development policy to the wider external relations political agenda remains one of the most controversial debates currently taking place in this policy area.

Similarly the substantial commitment to the funding of the Santa Cruz - Puerto Suarez highway is justified as meeting the EU's particular commitment to regional integration. This despite questions being raised as to the effectiveness of many of the EC's 'regional' programmes and the supposed move away from specific project towards more fungible budget and sectoral support.

It has already been noted that the implementation of 'cross-cutting' themes, outside of the context of specific projects, is proving problematic, both for the Commission and

the Bolivian government. There is clearly a question as to whether this reflects an impractical approach to fulfilling fashionable political objectives, generated by the European Parliament, or whether it is an area that requires the development of a more sophisticated methodology for implementation.

Detailed improvements in EC aid delivery – project implementation and evaluation, procedure harmonisation, financial control – will be dependent upon the Commission’s ‘deconcentration’ programme in transferring responsibility and resources to its country Delegations. To be successful this must enhance the Delegations analytical capacities so as to create a detailed knowledge of the political and social obstacles to Bolivia’s development and to formulate a consistent policy upon this basis. For throughout the CSP there are guarded references to the problems of social conflict - the loss of trust between government and civil organisations - and good governance. The comprehensive programme of institutional and political reform outlined in the BPRS is clearly central to the country's development strategy, and this is recognised in the CSP. As technical assistance and support for institutional and administrative reform is mainly to be undertaken under the aid programmes of the EU's Member States, it emphasises the central role that coordination will have to play if the EC's programme is to deliver its Bolivian aid objectives. Such coordination will also be essential if the EU collectively is to realise its full potential in influencing the direction of Bolivian government policy and to ensure an alternative voice in the Bolivian development debate to that of the IMF and World Bank.

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