

Country Study

Prepared for the project

***Southern Perspectives on
Reform of the International
Development Architecture***

Bolivia

Gover Barja

Maestrías para el Desarrollo
Universidad Católica Boliviana

October 2007

Author's Acknowledgements

The author would like to acknowledge comments from Bill Morton (NSI) on this paper and its earlier version. Also a special recognition to the following Bolivians that gladly offered their time for an interview: Marcelo Barron, Victor Hugo Bacarreza, Fernando Jimenez, Miraglia Giles, Juan Antonio Morales, Juan Cariaga, Horst Grebe, Diego Ayo, George Gray Molina, Wilson Jimenez and Juan Carlos Aguilar. Errors or misinterpretations strictly belong to the author.

Gover Barja
gbarja@mpd.ucb.edu.bo

This paper was prepared for the project ***Southern Perspectives on Reform of the International Development Architecture*** coordinated by The North-South Institute.

The North-South Institute would like to thank the following for their valuable support for the program:

The Department for International Development (DFID), UK
Ministry for Foreign Affairs, Sweden
Ministry of Foreign Affairs, Norway
The Canadian International Development Agency (CIDA)



The North-South Institute
L'Institut Nord-Sud

CONTENTS

| | |
|--|----|
| Acknowledgements | 2 |
| Abbreviations | 4 |
| Executive summary | 5 |
| I. Introduction | 9 |
| II. Development Context | 9 |
| 1. Political context | 9 |
| 2. Development challenges | 12 |
| III. Importance and Influence of the International Development Architecture in Bolivia, 1985 – 2005 | 13 |
| 1. The structural fiscal deficit | 13 |
| 2. Magnitudes, types, participants and relief | 14 |
| 3. Donor-government relations and ownership | 19 |
| 4. First, second and third level ownership problems | 22 |
| IV. New Situation starting 2006 | 30 |
| 1. Key issues and outcomes in the new economic context | 30 |
| 2. The issue of sovereignty | 32 |
| 3. Role of old and new participants | 34 |
| 4. The MDGs and the Paris Declaration | 35 |
| 5. The need to generate new scenarios of cooperation | 37 |
| <i>References</i> | 41 |
| <i>Annexes</i> | 43 |

Abbreviations

| | |
|--------|--|
| AfDB | African Development Bank |
| BCB | Banco Central de Bolivia / Bolivian Central Bank |
| CAF | Corporación Andina de Fomento |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| HIPC | Highly Indebt Poor Countries |
| IADB | Inter American Development Bank |
| INE | Instituto Nacional de Estadística / National Institute of Statistics |
| IMF | International Monetary Fund |
| NDL | National Dialogue Law |
| NEP | New Economic Policy |
| NGOs | Non-Governmental Organizations |
| NSI | North-South Institute |
| MAS | Movimiento al Socialismo |
| MDGs | Millennium Development Goals |
| MDRI | Multilateral Debt Relief Initiative |
| MpD | Maestrías para el Desarrollo |
| OED | Operations Evaluation Department, World Bank |
| PIEB | Programa de Investigación Estratégica en Bolivia |
| PND | Plan Nacional de Desarrollo / National Development Plan |
| PRSP | Poverty Reduction Strategy Program |
| UNDP/B | United Nations Development Program / Bolivia |
| VIPFE | Viceministerio de Inversión Pública y Financiamiento Externo Public Investment and Foreign Finance Office |

Executive summary

The magnitudes of financial flows from the international development architecture have been important for the Bolivian economy during the past two decades. Loans and grants represented on average above 53 per cent of total public investment and FDI represented 76 per cent of total private investment (mostly concentrated in the period from 1996 to 2003). In addition, two decades of different forms of debt relief permitted Bolivia to benefit from access to concessional loans, grants and debt reduction from multilateral and bilateral agencies. Bolivia also benefited from flows through NGOs and more recently from significant workers' remittances. Bolivia's dependence on foreign finance during the period from 1985 to 2005 reflects a structural problem of insufficient domestic savings that resulted from insufficient wealth creation, so much so that one can not help but wonder how the Bolivian economy and society would have fared without these resources. However, from the perspective of aid effectiveness, including in terms of promoting more efficient processes, a sustainable decrease in dependency, and above all stronger ownership, it is hard to avoid the conclusion that the Bolivian experience with foreign finance has been extremely mixed.

Looking back, Bolivia's dependence problem deepened after the debt crisis and hyperinflation of the early 1980s, and this was compounded with the longer term drop in the country's terms of trade. As a result the government was able to generate revenues only to cover its current expenditures, but not enough for capital expenditures that would have some impact on development. For the next two decades the government adopted a highly liberal relationship with the international architecture in order to ensure the availability of foreign finance. This was possible through debt negotiations with the Paris Club along with IMF approval of macroeconomic stability programs and under the World Bank's leadership in development policy design. Over the years Bolivia implemented market liberalization policies, private sector development, privatization, deregulation, decentralization and local development, health and education reform, a poverty reduction strategy and national dialogues. It reported on the MDGs and on alignment and harmonization for aid effectiveness. Bolivia certainly "did it all and more", frequently expressing "we are the experiment" or that "Bolivia was the best student" of the aid architecture. Expressions such as these suggest Bolivia basically gave up ownership of its development policy agenda in exchange for foreign finance.

This paper argues that there were three levels of ownership problems in Bolivia related to the international development architecture. First, reforms and programs were donor-driven and as a result the architecture failed to recognize the scope of Bolivian specificities and heterogeneities (economic, social, political, cultural, geographic and historical) that make up its fundamental structural context. The architecture also failed to recognize a number of other important factors: the majority of the population could not participate in the market economy because of the degree of poverty and inequality; the market-led development model relied on a narrow natural resource based economy as opposed to a broad based economy; there was excessive attention to basic services provision and relatively little to production and employment (a consequence of excessive reliance on private sector development). Other issues insufficiently considered were the importance and role of the Bolivian Indigenous population and the "internal

colonization” problem which resulted in the perception by many that policy conditionality involved alignment of national interests with those of the local elite.

However, not all problems resulted from the development architecture or from donor-driven policy conditionality. Bolivians know that government itself has been an important part of the development problem because of its weak role in governance. The diversity of domestic visions of development generates a government with a profound internal political conflict, which helps explain its structural inefficiency and permanent political interference and instability (which are different to lack of government commitment). Weak government and governance have been and continue to be the expressions of a fundamental structural constraint, which together with the lack of a regulatory framework regarding aid flows, had a significant impact on ownership and aid effectiveness. Donors have used this to find a comfortable niche for their aid operations, frequently bypassing government and following their own heterogeneous visions (some bilateral cooperation agencies clashed with their own NGOs) and indirectly contributing to further weakening of government and governance. At the same time, government appropriation of new ideas and trends in development occurred in a context in which only a small portion of society shared those ideas. This generated a disconnection between government and a large part of society, which, understandably, fed into governance problems. The main conclusion here is that it is Bolivians who need to better understand their own reality and experiment with their own development ideas, and this needs to be supported by the aid architecture.

Second, the combination of weak government and governance plus the legitimate requirement of donor accountability to tax payers, created an incentive for further conditionality with the inevitable by-product of further weakening of domestic public organizations, institutions and systems that are essential for genuine ownership. Once a donor decided on the degree of concessionality of its loan or grant, conditionality continued to be applied through donor dominance over the hundreds of decisions during a project or program implementation. The result was the introduction of significant distortions, including in the form of parallel government units or the management leadership of projects and programs within a government office or the co-administration of a project, and including labour market distortions. The appearance of hundreds of foreign and domestic NGOs, as well as bilateral agencies, was an expression of this fact, despite the emergence over recent years of financing innovations such as basket funds, sector wide approaches and direct budgetary support. The conclusion here is that only local systems, institutions and organizations should be used, even if they are currently inefficient. Under current conditions in Bolivia, the most important active role the development architecture can play is capacity development.

Third, by 2005 there were 28 multilateral agencies, 26 bilateral agencies and over 500 registered NGOs operating in aid related activities. All of these agencies need to monitor the use of their resources and, as elsewhere, the problem of multiple agencies has introduced significant transaction costs that have affected aid effectiveness. This issue has received important attention in recent years leading to harmonization efforts among agencies through VIPFE (a specific government office) and under the government’s “New Framework for the Relationship with the International Cooperation”, sometimes

with the belief that solving the multiple agency problem would solve the aid effectiveness problem (the above first and second level problems). In fact, the opposite is the case: resolution of other aid effectiveness issues would also resolve problems associated with multiple agencies.

This paper's opinion is that because of weak government and governance, the international development architecture became one more player in the strategic game of Bolivian development, influencing other Bolivian players and being influenced by them, with unequal negotiating power. When including FDI, particularly in natural resource sectors, the general perception has been one of excessive foreign influence to the point (expressed by the current government) that it became necessary to recover a sense of sovereignty. The idea of a more passive, less "interventionist" role of the international development architecture is consistent with the current government's own philosophy, and with the concept of ownership expressed in the Paris Declaration. However, weak government and governance have been and continue to be important constraints that have significant impacts on ownership and aid quality.

Surprisingly, after several years of social unrest and political instability, a new economic and political environment arose in 2005 and 2006 that broke with the fiscal structural problem and with the market-led development model. At the same time, the country also benefited from significant foreign debt reduction and favourable international economic conditions. As a result, the traditional need to urgently seek foreign finance has decreased, at least for the medium term. Nevertheless, the development challenges of reducing poverty and inequality and of increasing productivity, as well as the internal political challenges of accomplishing a successful new national constitution and regional autonomies, continue to appear potentially overwhelming.

Because of these challenges, Bolivia will still need aid in the future. However, the important political and economic changes that have occurred since 2006 mean that a new model for aid provision will be required. This could include a new initiative to connect the international aid architecture with Bolivia. This paper recommends that the Bolivian state should promote a national agreement (expressed in a national law) in favour of reaching a set of long term Minimum Goals for those who live under the poverty line. These goals would be pursued by any government regardless of its political views, development vision and the interest group it represents. The international development architecture would align and support them on a long term basis regardless of the government in place and of the degree of uncertainty in the national and international political and economic environment. The political neutrality proposed here responds to the fact that the poverty, inequality and productivity issues regarding those who live under the poverty line can not wait for the solution of all internal political problems. A new mechanism of interaction with the aid architecture will also be needed. This should be under the leadership of Bolivia, driven under the framework of the Paris Declaration and the Universal Declaration of Human Rights and Declaration on the Rights of Indigenous Peoples (rather than debt management and reform requirements. The mechanism should include functions to attract concessional loans, grants and government allocations that should be transferred through a Bolivian counterpart office to the end-

beneficiaries in the form of specific programs and projects planned according to annual operational minimum goals.

I. Introduction

This is the Bolivia country study for the research program “Southern Perspectives on Reform of the International Development Architecture”. The objective of this program is to increase knowledge of Southern views on reform of the international development architecture, so that this knowledge can feed into, and influence policy debates and processes internationally and at the developing country level. The “international development architecture”¹ is defined as the world’s agencies, institutions and systems for managing the transfer of financial and human resources to, and development relationships with, low-income countries”.

The purpose of this study is to examine perspectives on how the international development architecture operating in Bolivia can be reformed. It approaches the issues first by reviewing the functioning of the international development architecture in Bolivia in the context of the period 1985-2005, and its importance from the perspective of the magnitude of financial flows as well as policy innovations in the areas of economics, politics and society. Second, the paper identifies several specific levels of ownership problems in the country’s relationship with the international aid architecture. Finally, it explores possible scenarios for a new relationship with the development architecture given the new development context in Bolivia since 2006.

A complete evaluation of the international development architecture operating in Bolivia is an immense task and is not the purpose of this report. The objective here is to identify and critically analyze the key issues, with an emphasis on recent years.

Methodologically the paper has benefited from opinions obtained through interviews with local analysts and from reviewing relevant literature that directly or indirectly addresses the issues.

II. Development Context

1. Political context

In 1982 Bolivia recovered a democratic system of governance, but it was only in 1985 that the political system reached effective governance based on agreements among parties in Congress. This later became known as the *democracia pactada*; a negotiated democracy among the parties of the elite that lasted for almost 20 years and that alternated through five constitutional governments. 1985 also marks the end of more than three decades of government-led development, and the beginning of the period of market-led development (liberalism) that continued to 2005.

In 1985 the government began the programs of structural reform. Drawing on advice from the World Bank and the International Monetary Fund (IMF) and the government’s own vision, the first cycle (1985-1999) introduced resource allocation based on the

¹ In Bolivia, “international cooperation” is the domestic expression used to refer to the international development architecture relative to aid.

market mechanism and on a macroeconomic policy of strict fiscal management. The second cycle (1994-1997) introduced privatization of state owned assets in the energy, communications and other infrastructure sectors, reforms in health and education, and decentralization policies. By 1997 the Bolivian government had privatized the most important public utilities. A new development model was thus introduced, which was designed to stimulate economic growth under private sector leadership in an environment of market competition, with the government providing macroeconomic stability, regulating services and redirecting its resources to social programs and later to poverty reduction efforts.

This new development model worked well for the population that was able to participate in the market economy, particularly those living in the largest cities. However, the model excluded the large poor Bolivian population living in urban and especially in rural areas (most of who were indigenous). Between 1999 and 2003 the economy experienced an important slowdown that began with several economic shocks, and which occurred when the structural reforms implemented during the 1990s were only starting to take hold. The late 1990s Asian economic crisis that prompted the Brazil and Argentina economic crises had reduced exports and generated capital outflow from Latin American countries, including Bolivia. The social costs these generated fed into social unrest and political instability, and into a questioning of market-led development and property rights. This, in turn, generated an economic environment of risk and uncertainty that had a negative impact on poverty reduction efforts, halted private investment and deepened unemployment. Bolivia entered a period of social unrest with an increasing loss of governance.

As conflict developed, the strength of the social movements began to determine a new agenda for Bolivian public policies. This agenda consisted of expansion of natural gas fiscal rents and their distribution, nationalization of hydrocarbons, changes in land ownership, access to infrastructure and basic services, and a Constituent Assembly. The social movements challenged the Hydrocarbons Law that had been approved in 1997 and that had provided a framework for privatization of the hydrocarbons sector. It was in this context of increasingly empowered social movements and weakening traditional political parties that the 2002 elections were carried out. This election saw the almost complete disappearance of the traditional political parties.

After the 2002 election, President Sanchez de Lozada (who won with only 22.5 per cent of the vote) and the traditional political parties attempted to continue to govern through a model that was worn out. In 2003 the social movements began to rebel against the political system. Their demands for change accumulated, and the majority of the population felt the new government did not represent their interests at all. As the political conflict deepened the President was forced to resign in 2003, signaling the end of two decades of “negotiated democracy”. The following years included two short presidencies and eventually resulted in a political agreement to call new national elections by 2005, and a Constituent Assembly and Referendum for Autonomies by July of 2006. Both of these were the only acceptable transitional political solutions to social and political instability.

The election in December 2005 of Evo Morales as President of Bolivia, along with his political party *Movimiento al Socialismo* (MAS) with a majority of 54 per cent of votes, heralded a turning point in Bolivian politics. It automatically ended the previous relationship of the national State with civil society that was strongly determined by exclusion and negotiations restricted to existing power groups. Morales represented the interests of the strong social movements that demanded the appropriation by the government of natural gas rents and their distribution, the nationalization of hydrocarbons, changes in land ownership, broader access to basic services, and a Constituent Assembly. These demands responded to a national feeling of injustice and exclusion which was linked to privatization and the market system. Civil society groups and social movements that continue to support MAS are strongly opposed to the sorts of structural reform policies and ideology that successive previous governments had supported and implemented.

The Morales administration seeks a return to government-led development, and to build a new Bolivian State that is “proud, sovereign, productive, democratic and participative, so that all Bolivians live well.” (PND 2006). The state is designed to coexist with private ownership and private initiative, but will not transfer development responsibilities to private sector leadership and the market. Although Morales does not have a majority in the Senate, he has a simple majority in the Deputy Chamber. So at Congress level, alliances are still needed in order to have the simple majority in both chambers required for the approval of laws. Beyond Congress, political support is also needed from social movements and some regional governments (Prefecturas) who have acquired considerable strength in recent years to the point that they have veto power on public policy.

The Constituent Assembly has been operating since July 2006 and so far is expected to end in December of 2007, regardless of whether it produces a new national constitution or not. Among the key issues discussed are the extent and characteristics of regional autonomies as well as land distribution and territorial reorganization, which could mean other levels of autonomies. The Constituent Assembly is also seen as a mechanism to create a new “social agreement” that would help set the basis for the solution of current social, political and economic problems. Moreover, it is a key demand of all Bolivian indigenous people, because it means re-establishing the Bolivian State with the true inclusion of indigenous people and their multiculturalism within its design and administration.

During the last election, Bolivians also elected *Prefectos* (regional governors) for the first time. This is an important new political development, and is a direct consequence of the pressures for regional autonomy. This was the main objective of some regional civic committees, which wanted full decentralization of the state, so that each region would decide its own administration and destiny. These civic committees felt that the social movements did not represent their interests, and also wanted the continuation, rather than the end, of the previous market-based model.

These changes are underpinned by the economic situation, which from 2004 began to be reversed. In particular by 2005-6, positive external shocks not only stopped further

deterioration of the economy but also helped in its recovery. These positive shocks included high oil prices and increasing natural gas demand from Brazil and Argentina, reversal of terms of trade and significant debt relief and workers' remittances. Domestic policy decisions, mainly the new Hydrocarbons Law, increased gas and oil rents generating immediate fiscal surpluses.

2. Development challenges

The 2005 Bolivian poverty indicators show that 60.6 per cent of the population live in poverty (51.1 per cent urban and 77.6 per cent rural)² and 38.2 per cent live in extreme poverty (24.3 per cent urban and 62.9 per cent rural)³ (UDAPE). These indicators are only the surface of an environment characterized by significant human capital poverty, infrastructure poverty, knowledge poverty as well as concentration of these within the Bolivian indigenous populations of the highlands and valleys. Poverty reduction (as opposed to poverty containment) will certainly remain the key development objective for many decades to come. This will require ensuring an adequate environment of stability and improved governance in order to address inequality reduction and productivity increase.

The inequality challenge is expressed by the 2005 Gini coefficient of 0.60 (0.54 urban and 0.66 rural)⁴, making Bolivia the most unequal society in Latin America by this measure. Breaking with the inequality trap requires implementation of long term redistribution policies that would develop human, infrastructure and institutional capital to acceptable universal minimums. The productivity challenge is expressed by a productive sector characterized by thousands of micro enterprises that by 1999 on average generated 83 per cent of total employment with a productivity of \$60 per employee per month, in an environment where Bolivia is 101/117 on the Growth Competitive Index and 109/117 on the Business Competitive Index (Global Competitiveness Report 2005). Breaking with the productivity gap requires long term policies for developing entrepreneurship, business and knowledge capital and institutional capital.

The stability and governance challenges reflect the requirements for progress in poverty reduction, and are related to the management of the sources of political and economic instability. The thousands of civil unrest episodes that the country faces every year are an expression of the political economy complexities of nation building in an environment of weak institutions. At the same time, however, years of efforts in inequality reduction and productivity increase can be lost almost instantly when the macro and micro economies are hit by external shocks such as international financial crisis and natural disasters.

² Uses a poverty line of \$US44.3 per month urban and \$US34.8 per month rural.

³ Uses a poverty line of \$US24.4 per month urban and \$US19.8 per month rural.

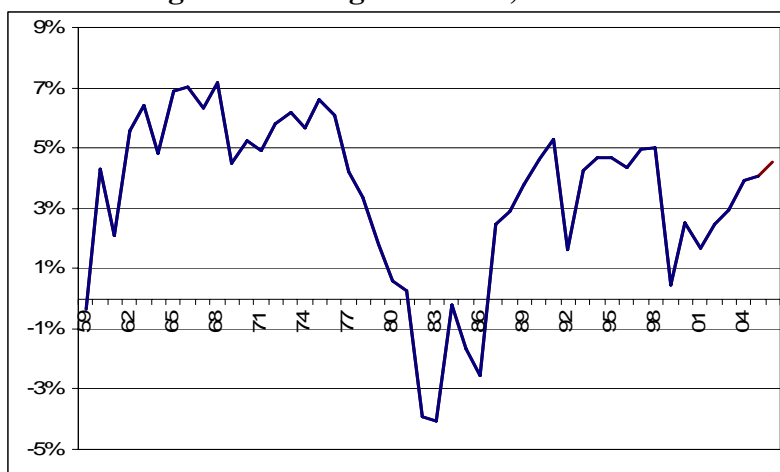
⁴ The Gini coefficient varies between 0 for perfect equality and 1 for perfect inequality.

III. Importance and Influence of the International Development Architecture in Bolivia, 1985-2005

1. The structural fiscal deficit

Figure 1 shows the devastating impact on Bolivia of the external shock that began with the oil crisis during the late 1970s. This initially impacted through high international interest rates and later combined with the continual drop in Bolivia's terms of trade, resulting in Bolivia's debt crisis, hyperinflation during the early 1980s and an end to the period of government-led development.

Figure 1: GDP growth rate, 1959-2006



Source: INE

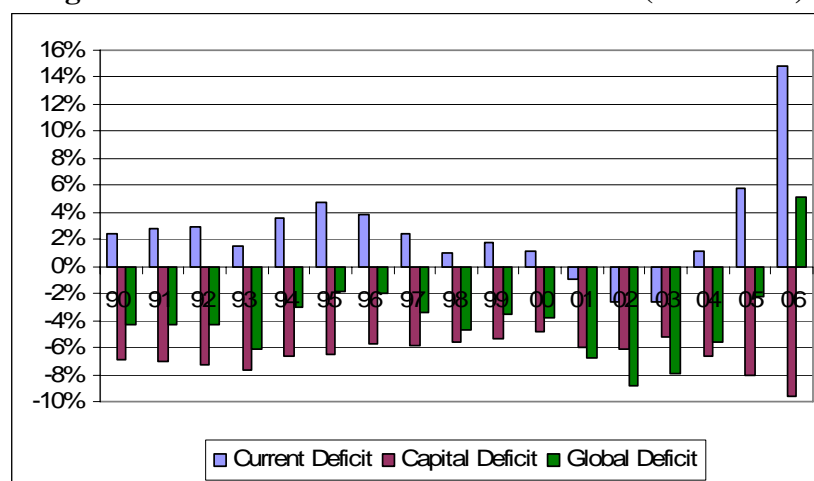
Even today Bolivia is still recovering from this original external shock. In the process it was hit again in 1999 by other external shocks that began with the Asian crisis. The latter crisis reached Bolivia mostly indirectly through the dramatic impact on neighbouring countries Brazil and Argentina. This also contributed to the end of the period of liberalism that had begun in 1985, and to the return in 2006 to government-led development.

A key element that helps to explain the persistence of the period of liberalism was that once the economic crisis of the early 80s was over and the government had implemented the New Economic Policy (NEP) (which included tax reform, drastic reduction in government spending and liberalization of the main prices of the economy), it realized that it could still only generate revenues to cover current expenditures. It faced insufficient public savings for the type of capital expenditures that would have some impact on development. For this reason the government needed access to foreign debt if any significant public investment was going to take place.

Figure 2 shows that throughout the 1990s, the fiscal capital account deficit was the sole determinant of the global fiscal deficit, which was financed mostly by new foreign debt. This reality of aid dependency accompanied by low growth was already apparent in the early 1990s. Policies to further deepen the market system, the introduction of

privatization and concentration of government on social and regulatory activities were important efforts to change this reality. The results however were disappointing, in that during the rest of the 1990s the dependency reality remained and even worsened during the early 2000s. This was due to the next external shock, with both the fiscal current and capital account deficits adding to generate a global fiscal deficit of above 8 per cent of GDP by 2002. In February 2003 the Sanchez de Lozada government tried to implement a new income tax required by the IMF. This resulted in his first social and political crisis that almost ended his government, and set the stage for his downfall a few months later in October of 2003.

Figure 2: Bolivia's structural deficit finance (% of GDP)



Source: BCB

2. The development architecture in Bolivia: magnitudes, types and participants

Historically, the main reason for foreign finance to Bolivia has been to compensate for insufficient domestic savings, the result of insufficient wealth creation. While it is possible to identify many motivations for the provision of foreign finance to Bolivia (even geopolitical), in the end it is insufficient domestic savings that explains its origin and influence.⁵ This structural constraint has operated over time regardless of the economic or political regime, and explains why Bolivia has been dependent on foreign finance. What follows is a brief description of the evolution of foreign debt, grants and Foreign Direct Investment (FDI) in Bolivia's development finance.

a. Foreign finance in public investment

Foreign finance was and continues to be a very important part of Bolivia's public investment. In nominal terms it accumulates to an amount of \$4.5 billion for the 16 years from 1990 to 2005. This amount corresponds to an average of 52.9 per cent of total public investment and an average 3.9 per cent of GDP for the same period. Foreign

⁵ This fact has changed in the last couple of years. Bolivia enjoys a domestic savings surplus as a result of new external conditions (but not because of an internal productivity increase). See Section IV of this paper for more details.

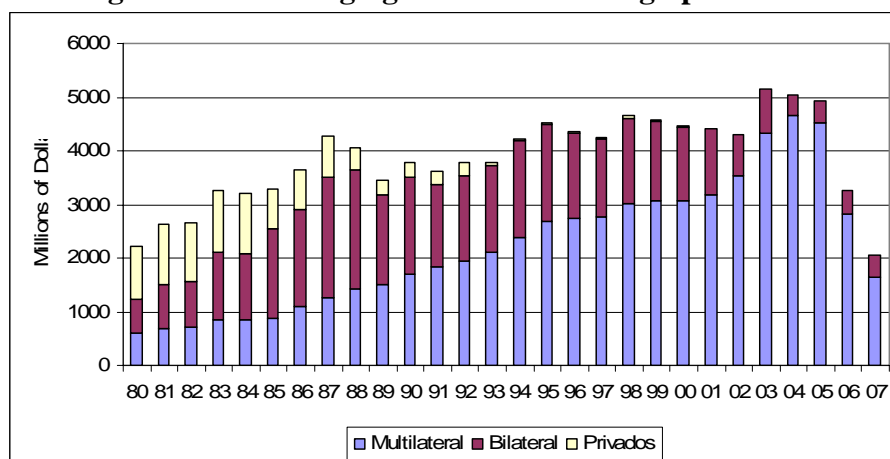
finance reached its highest level of 5 per cent of GDP during the early 1990s and decreased below 3 per cent of GDP only during the few years of important private FDI flows. Later during the early 2000s, corresponding to the years of economic slow down with decreasing domestic finance, foreign finance compensated that decrease by reaching levels above 4 per cent of GDP.

The structure of foreign finance for public investment has consisted mainly of new annual foreign debt but has also included the increasing participation of annual grants. In nominal terms new foreign debt source accumulates to \$3.4 billion for the 16 years from 1990 to 2005. This amount corresponds to an average of 75.6 per cent of total foreign finance and an average 2.95 per cent of GDP for the same period. In nominal terms the annual grants accumulate to \$1.1 billion for the same period, an amount that corresponds to 24.5 per cent of total foreign finance and an average of 0.95 per cent of GDP. Debt finance reached its highest levels of 4 per cent of GDP during the early 1990s and decreased below 2.5 per cent of GDP during the years it was substituted by FDI flows. During the years of economic slow down that followed, grants were much quicker to react to needs in the period 2001-2003. In 2004 another new period began, with debt finance again becoming the dominant flow and substituting FDI.

b. Foreign debt and relief

Figure 3 shows that the structure of the stock of foreign public debt by creditor has changed substantially over the decades. Most of the accumulated debt during the 1970s was loans from private capital banks. This is reflected in the fact that 45.7 per cent of total debt by 1980 was with private creditors, compared to 30.4 per cent of bilateral debt and 23.7 per cent of multilateral debt. Because of the debt crisis this changed by the end of the 1980s, when Bolivia was able to buy back most private loans at 11 cents per dollar using grants from the international community and also after negotiations with the Paris Club creditors in rescheduling and reducing part of its bilateral debt. By 1988 the composition was 54.4 per cent of bilateral debt, compared to 35.0 per cent of multilateral debt and only 10.5 per cent of private debt.

Figure 3: The changing structure of foreign public debt



Source: BCB

In contrast, during the 1990s and 2000s debt with private creditors basically disappeared and the debt composition was mostly characterized by an increasing participation of multilateral debt. By 1995 the multilateral and bilateral debt composition was 59.1 per cent and 40.1 per cent of total debt respectively. By 2000, this structure changed to 68.9 per cent and 30.6 per cent respectively and by 2005 the structure became 91.4 per cent multilateral debt and 8.5 per cent bilateral debt. Multilateral public debt was characterized by being concessional and has traditionally been concentrated with the World Bank and the Inter American Development Bank (IADB) (above 66 per cent of total debt stock by 2005). Commercial loans from Corporación Andina de Fomento (CAF) have become a third important multilateral participant in recent years (17.6 per cent of total debt stock by 2005).

Bolivia has participated in seven rounds of negotiations with the Paris Club creditors from 1986 to 1998. These negotiations were initially mostly about debt rescheduling although later debt reduction became more important. After a decade of Paris Club negotiations Bolivia was able to benefit from the rescheduling of \$979 million and \$1.35 billion debt reduction. In 1996, under the framework of the Paris Club, the World Bank and IMF implemented the HIPC initiative (HIPC I) that had the objective of reducing the foreign debt of highly indebted poor countries to sustainable levels. Bolivia achieved Decision Point by September 1997 and Completion Point by September 1998. Total estimated relief for Bolivia under the HIPC I initiative is expected to reach a total of \$476 million in present value terms or \$778 million in nominal terms, spread over a total period of 47 years. Annual freed resources from this initiative are for free use by the Bolivian government.

By the end of 1999 the World Bank and IMF decided to further reinforce the HIPC initiative through HIPC II (or Enhanced HIPC), in order to achieve debt sustainability in a quicker and deeper manner. Bolivia achieved Decision Point by February 2000 and Completion Point by June 2001. Total estimated relief for Bolivia under HIPC II is expected to reach a total of \$1.18 billion in present value terms or \$1.77 billion in nominal terms, spread over a total period of 45 years. Use of freed resources from Enhanced HIPC was conditioned on the elaboration of a Poverty Reduction Strategy Paper (PRSP) with the participation of government, the private sector and civil society. Later the Paris Club, under the Cologne Initiative, recommended additional relief to HIPC countries based on bilateral debt cancellation, an initiative referred to as “Beyond HIPC”. Total estimated relief for Bolivia under the Beyond HIPC initiative is expected to reach a total of \$628.8 million in nominal terms, spread over several years. The freed resources from this initiative were initially given similar treatment as those from Enhanced HIPC, but since 2002 the government decided to use them freely.

Of a total \$1 billion of debt relief in nominal terms accumulated up to June of 2006, 61.3 per cent corresponds to multilateral creditors and 38.6 per cent corresponds to bilateral creditors. The type of debt relief given by creditors usually takes one of three forms or a mix of them: i) a grant in order to pay for debt service; ii) debt rescheduling by term expansion and rate reduction; iii) stock reduction by the cancellation of debt. In the Bolivian case, up to June of 2006, the structure of type of debt relief was 55.0 per cent via grants (\$552.9 million), 10.2 per cent via debt rescheduling (\$102.3 million) and 34.8

per cent via stock reduction (\$350.3 million). HIPC I was mostly concentrated in grants, HIPC II was also mostly concentrated in grants but also generated important stock reduction, while Beyond HIPC was mostly concentrated in stock reduction.

It is important to note that total foreign public debt did not decrease in nominal terms since the 1980s but rather has increased over time as can be observed in Figure 3 (although it did decrease as a percentage of GDP and of exports). The important efforts resulting from Paris Club negotiations since the 1980s and later the HIPC initiative did not have an effective impact in reducing debt stock. The reason for this is that Bolivia permanently needed new debt disbursements. These grew at a faster rate than actual debt reductions and repayments, and only partially contributed to the containment of poverty levels. This fact, added to the observation that none of the MDGs would be reached by African countries, generated the announcement by the G-8 in June 2005 of full cancellation of debts owed by HIPC countries to the IMF, World Bank and African Development Bank. This was named the Multilateral Debt Relief Initiative (MDRI). After two decades of debt negotiations, implementation of this initiative during 2006 meant for the first time a significant relief for Bolivia, with a stock reduction of \$232.5 million with the IMF and \$1.51 billion with the World Bank, effectively reducing total debt by one third. In 2007 debt cancellation of \$1.04 billion with the IADB was also implemented, further reducing Bolivian foreign debt to 40 per cent of its 2005 level, and leaving CAF as its main creditor.

At the same time, however, limited access to further foreign public debt has substantially increased domestic public debt over recent years, which in 2006 increased to a new historical level of 25.3 per cent of GDP. Up to 2005 access to further public debt was limited due to HIPC conditionality: the present value of foreign debt to exports ratio had a ceiling of 150 per cent and the foreign debt service to exports ratio had a ceiling of 20 per cent. Since 2006 Bolivian needs for foreign debt diminished substantially.

c. Foreign finance in private investment

FDI always existed in Bolivia, but normally in amounts not significant to consider that it had any impact on growth. It was only during the second half of the 1990s that this changed, when FDI numbers started increasing to levels quite different from historical precedents. In nominal terms the annual FDI source accumulates to \$8.3 billion for the 16 years from 1990 to 2005. This amount corresponds to an average of 76.1 per cent of total private investment and an average 6.6 per cent of GDP for the same period. FDI reached its highest level of above 12 per cent of GDP during 1998-99 and again in 2002 but by 2004 decreased to levels even below 1996. Recent statistics from INE (2005) for the period 1996-2003 show that most FDI had its origin in the United States, Argentina, Brazil and several European countries (86.4 per cent); was invested in the hydrocarbons sector (41.6 per cent) and different service sectors (45.6 per cent) and encouraged by privatization policies; was mostly concentrated in the dynamic department of Santa Cruz (43.8 per cent) compared to other less dynamic departments of La Paz, Cochabamba and Tarija (49 per cent), and was under capitalization investments (44.1 per cent) or direct investment loans (41 per cent).

Domestic private investment was significant during the early 1990s and was close to public investment levels, but this decreased to below 2.5 per cent of GDP during the years it was substituted by private FDI flows. During the years of economic slowdown between 2000 and 2004, FDI tended to decrease as a percent of GDP (except for 2002) and more so in nominal terms, but became the only source of private investment compared to the outflow of private domestic investment. This experience shows that during the difficult years (when social crisis and questioning of the dominant economic model were strong), FDI became somewhat volatile with a tendency to decrease, while domestic private investment became more conservative and substantially more sensitive to uncertainty.

d. Types of foreign finance and institutions

The international development architecture provided six broad sources of access to foreign finance: multilateral agencies (mostly concessional loans), bilateral agencies (mostly grants), NGOs, FDI, private loans and more recently, workers' remittances. Table 1 shows the structure of disbursements in 2004 from CAF, World Bank, IADB and the European Union which amounted to 93.7 per cent of total multilateral finance that year. It also shows that flows from the United States, Japan, Germany, Holland, Sweden, Brazil, Spain and Switzerland made up to 86.6 per cent of total bilateral finance in 2004.

Table 1: Disbursements from Multilateral and Bilateral Agencies in 2004

| Agencies | Disbursements in 2004 (US\$ Million) | Percent |
|--|---|---------|
| Multilateral Agencies | | |
| Corporación Andina de Fomento (CAF) | 180.5 | 38.4 |
| World Bank | 127.3 | 27.0 |
| Inter American Development Bank (IADB) | 93.0 | 19.8 |
| European Union (EU) | 40.1 | 8.5 |
| Other | 29.8 | 6.3 |
| Total | 470.6 | 100 |
| Bilateral Agencies | | |
| United States (USAID) | 73.3 | 23.8 |
| Germany (KfW & GTZ) | 56.1 | 18.2 |
| Brazil | 35.8 | 11.6 |
| Spain | 26.6 | 8.6 |
| Holland | 23.9 | 7.8 |
| Sweden (ASDI) | 20.7 | 6.7 |
| Japan (JICA) | 18.5 | 6.0 |
| Switzerland (COSUDE) | 11.9 | 3.9 |
| Others | 41.2 | 13.4 |
| Total | 308.1 | 100 |

Source: VIPFE

FDI occurred mostly during the second half of the 1990s in the form of capitalization investments and direct investment loans. A large part of it was a result of the privatization of state owned enterprises. Private sector loans from the private international banking system have not been as significant recently as in the 1980s. Grants through NGOs may have been significant given their numbers (75 foreign NGOs and 592 foreign financed Bolivian NGOs were registered by 2005). There is, however, no

available data on size of grants or on whether they are concentrated with particular NGOs. Workers' remittances from abroad have gained significant importance only in the last few years, increasing from the traditional level of \$60 million in 2000 to \$244.3 million in 2005 and \$503.7 million by 2006. This last is 2.3 times greater than the amount of bilateral transfers in 2006.

In general, the strategy of the Bolivian government regarding financing preferences has been driven by the opportunities the financing provides balanced against constraints. For instance, for loans, the preference has been for longer terms, lower interest rates, longer grace periods, flexibility, free use, easy access and availability. Financing through concessional debt and grants has been a first preference as opposed to commercial debt. For this reason the main creditors became the World Bank, IADB (concessional debt) and bilateral aid (concessional debt and grants). However, when access was not always possible and consistent with creditor conditionality, in many cases the government had to acquire expensive loans because they were easier to access and sometimes the only available. This was the case during the 1990s, when the government accessed CAF resources that more closely behaved as commercial loans and as such were more expensive but less conditioned. Acquiring internal debt was another option in times of need (mostly throughout the 2000s) which is also expensive but can be used for government expenditure rather than investment.

3. Donor-government relations and ownership

An important question is how the Bolivian development context and challenges, and the corresponding response in terms of foreign finance, have shaped the evolution of an international development architecture operating in Bolivia. The development challenges and finance needs during the period of liberalism pushed governments to actively search for access to foreign finance from private creditors, bilateral and multilateral agencies, but also from NGOs and FDI. Governments also actively pursued debt relief measures. In order to ensure annual access to this foreign finance and debt relief, the government tended to adopt and adapt to the international architecture language and programs, fully accepting its conditionality⁶. For successive Bolivian governments, liberalism not only meant embracing the market system but also having a liberal relationship with the international development architecture.

Experience has shown that the higher the financial costs of a financial resource, the lower the transaction costs related to it including conditionalities regarding its use. This is the case of commercial loans which may come from multilateral or bilateral sources. These resources require formal approval by government and would be registered and executed through VIPFE. Commercial loans to government from the private international banking system would be an extreme source of financing in the Bolivian case, and would just not happen. In contrast, the lower the financial costs of a financial resource, the higher the transaction costs related to it including conditionalities regarding its use. This is the case

⁶ An interviewee for this study suggested that conditionality with the IMF proceeded after lengthy discussions. The degree of ownership was high. The same was not true with the World Bank or with the IADB.

of concessional lending from multilateral and bilateral sources, and much more so in the case of grants from the bilateral cooperation. In the case of concessional loans, there is a formal agreement with government regarding their use and conditionality. The loan is then registered and administered through VIPFE. Bilateral grants are mostly registered at VIPFE, but are commonly administered directly by an office or representation of the foreign government in Bolivia, from planning to project execution, and not necessarily through government offices. Grants administered by foreign or local NGOs are a more extreme case, in which financial resources are for free use by the NGO. There is therefore no government participation, and in most cases not even registration. These financial resources are spent through NGOs' own administrative mechanisms to accomplish their own objectives. Sometimes NGOs from a foreign country execute projects that contradict the bilateral cooperation conceptual framework of their own government.

The above helps to explain which type of finance and therefore which type of aid institution tends to get more involved in development policy in Bolivia. NGOs get highly involved but their operations are small in scale. Their influence can be very high, but only in the specific locations where they develop their activities and projects. However, the number of NGOs is quite large and some NGOs have grown into networks. Bilateral cooperation agencies also tend to get highly involved, some more than others depending on the grant to debt finance ratio. Their operations are generally on a larger scale compared than those of NGOs, but are lesser compared to multilateral cooperation agencies. Multilateral cooperation as a whole is of a much larger scale and has greater impact in terms of influencing the policy agenda and in terms of conditionality. At the same time, however, multilateral agencies' programs are forced to gain approval from government and their implementation and follow up must be formally channelled through VIPFE. In addition multilaterals tend to operate with a low grant to debt ratio.

When it comes to negotiating with multilateral cooperation and some of the bilateral cooperation agencies, government influence could be much stronger, including in terms of retaining greater ownership, and in terms of directing harmonization and alignment measures. However, government inevitably does not use this potential negotiating capability when financial needs are simply too great.

a. Key mechanism of interaction

From the Bolivian government side, two key entities are involved in interaction with the aid architecture. The Vice-Ministry of Budget formulates, executes, controls and monitors public investment policy, and also formulates and executes the policy on foreign finance. VIPFE is the key office within the Ministry of Budget with responsibility for annual programming and executing control of public investment and foreign finance. It has a specific Foreign Finance Direction with three units: Negotiation and Agility of Disbursement; Financial Programming; and Program Administration. VIPFE then channels foreign finance to different levels of government as well as to different government funds and other government entities, according to agreements.

Since 1986 the Consultative Group has been the highest level mechanism for government interaction and coordination with the aid architecture. This was originally linked to the Paris Club of creditor countries plus the World Bank and IMF (with an original mission of debt collection that evolved into debt relief over time). This generated secondary level mechanisms of interaction like periodic IMF evaluations previous to World Bank participation in private sector development policy and finance. This was later complemented with PRSP discussions, the National Dialogues of 2000 and 2002 and Donor Roundtables for alignment and harmonization efforts. Over time other organizations like the IADB, bilateral agencies and the Bolivian government itself aligned to World Bank leadership in development policy. Other complementary mechanisms of interaction are related to multilateral and regional financial organizations' own requirements for loan requests. Similarly, bilateral aid and international NGOs require detailed project proposals under (previous) government to government cooperation agreements and regional block cooperation agreements.

The importance of the Consultative Group meetings was that it was both a mechanism to introduce relief solutions to the Bolivian debt problem and a mechanism to release new financial resources for Bolivian development needs. From 1986 to 2003 there were 16 Consultative Group meetings, the first 12 under the Presidency of the World Bank and the last four under the Presidency of Bolivia⁷. For this mechanism to work, it required cooperation from the Bolivian government, from the aid architecture and from Bolivian creditors. Over the years the degree of cooperation and coordination evolved substantially. As expressed by Nickson (2002), the donor community became a strategic ally and a participant in the public policy-making process, responding to the strategic vision of key senior government officials, promoting high level donor coordination and producing a joint Donor Consultative Group Report.

b. Policy innovations and external influence during liberalism

The Bolivian development challenges and structural constraints and the international development architecture have attracted each other, developing a parallel between the emphasis of government plans and the emphasis of foreign development ideas, the latter being most influential particularly during the years of liberalism between 1985 and 2005. During this period it was usually the case that a government plan became the main country development framework for a presidential period. This was a result of campaigns for domestic democratic elections and also a response to opportunities and influences from the international development architecture. Every government would generally not find opposing interests between its development framework and the international development architecture ideas (in particular those of the World Bank), which were generally seen as positive for the country. However, there would usually be some need to adapt the government plan to the architecture's conditionalities, and also adopt its main ideas and language. Given Bolivia's dependence on foreign finance, each government made sure it would enjoy the support of the architecture (or at least part of it) in order to ensure its own survival and to at least partially fulfil its own campaign promises.

⁷ For further description of the Bolivian Consultative Group meetings see Carafa (2000).

As a consequence there is now a generalized perception that policy innovations during the period of liberalism were fundamentally foreign. Table 2 demonstrates this by comparing the major foreign policy lines with the major domestic policy lines. It is not difficult to conclude that Bolivia basically “did it all”, and maybe more. It applied all of the suggested ideas for development that came through the World Bank leadership that were reinforced by the architecture, and for this reason was domestically many times referred to as the development architecture’s “best student” or as a “donor darling” from the donors’ point of view. From the Bolivian point of view, given the government’s openness towards the development architecture, the expression “we are the experiment”, was common.

Table 2: Comparison of major foreign and domestic policy lines, 1985-2006

| Major foreign policy lines | Major domestic policy implementation |
|---|---|
| <ul style="list-style-type: none"> • Macroeconomic stability • Private sector development, privatization and regulation • Education and health reform • Decentralization and local development • Poverty reduction, PRSP and HIPC • Millennium Development Goals • Paris Declaration on Aid Effectiveness. | <ul style="list-style-type: none"> • Macroeconomic stability • Market economy, privatization, capitalization, regulation and less government (1) • Education Reform and Health Sector Reform • Decentralization, popular participation and “municipalization” (1) • PRSP, National Dialogues; HIPC I, HIPC II, Beyond HIPC and MDRI (1) • Detailed 4th MDG report in 2006 plus report on MDGs and Indigenous Peoples in 2006 • Paris Declaration as negotiating instrument and follow up Santa Cruz Declaration in 2006. |

Source: Own. (1) For a brief review and evaluation of these policies see the Annexes.

The above strongly suggests that the Bolivian government and society would not have developed these policy ideas on their own, or at least not in the same way or with the same emphasis. However, the Bolivian government played an important creative role in implementing policy: implementation was the Bolivian government role, for good or bad. For this reason it is possible to say that the development architecture became an important player in Bolivian development, a player that wanted to participate in the design of the development agenda given its implicit “right” to manage its concessional and grant resources. Therefore it is also possible to say that the many different agencies that make up the international development architecture (probably some more than others, including NGOs), were not passive observers from the distance, being careful not to interfere; rather they had become part of the Bolivian development agenda, influencing and changing the strategic behaviour of the other players within the economy and society, being influenced and changed, thus fully participating in the strategic game of Bolivian development.

4. First, second and third level ownership problems

A complete evaluation of the international development architecture operating in Bolivia would require detailed analysis of their policies, programs, processes, outcomes and

impacts, and is not possible within the scope of this paper.⁸ The purpose in this paper is to take a critical approach and to identify some of the most important issues regarding the architecture's relationship with government and society, and to consider in particular how these relate to the issue of ownership. Even with this more limited objective, it is not possible to make generalizations valid for all participants in the international development architecture or at least with the same degree of detail, given the wide heterogeneity in their scale of operations, characteristics and experience with Bolivia.

In the following section, I discuss first, second and third level ownership problems associated with Bolivia's relationship with the international development architecture. "First level ownership problems" refers to the question of who designs development policy and the affect of this on ownership, and considers the central issue of sovereignty. The second level refers to economic distortions generated by the accountability problem, which has affected ownership because donors were first accountable to their funding sources rather than to the final beneficiaries. The third level refers to administrative distortions caused by the "multi-agency problem", which has affected ownership because the large number of donors active in the country had to first comply with their own administrative procedures rather than use the government's procedures and systems.

a. First level ownership problems

Donor-driven policy conditionality and its evolution from private sector development to poverty reduction affected ownership by not fully recognizing Bolivian specificities and heterogeneities and by leaving behind many Bolivians who had different development views and different daily realities to those making development policy decisions.

The international development architecture was probably most influential in Bolivia through the introduction of policy innovations. This area relates more broadly to how development ideas are generated. Particularly during the period of liberalism, the most fundamental ideas for development were foreign. They were promoted in Bolivia through reports and research papers prepared by the development architecture (with Bolivian researchers participating in some cases), through foreign university research papers, through exchanges with local officials of multilateral and bilateral missions and through donor-driven policy conditionality itself, all with a high degree of acceptance from government.

A characteristic of this flow of ideas was that they tended to be thought of as not for a specific country but rather for the developing world in general. So these were ideas that would confront the fundamental problems of any developing society anywhere. While many of those fundamental ideas about development may be generally a good approximation, in countries like Bolivia, the specificities are simply too overwhelming to not take them into consideration. Those specificities are related to the coexistence of

⁸ Existing evaluations provide useful insights. For instance, a recent World Bank OED evaluation (2005) concluded that "the overall development outcome of Bank assistance was moderately unsatisfactory because of limited progress in improving the environment for private sector development, increasing rural productivity, and strengthening public sector institutions."

dynamic and simultaneous heterogeneities in several interrelated spheres: geography, cultures, economy and history⁹. Thus at least in the Bolivian case, a country specific approach should always be the inevitable approach. Instead, a universal approach was applied to Bolivia. The consequences from this approach to development became the source of the following fundamental or first level type of ownership problems, despite the fact that efforts were made to adapt ideas to Bolivian reality, or so it was thought:

i) *Different cultural views of development problems and issues.* In Bolivia, two fundamentally different understandings of economics and politics coexist within a wide range of interactions and experiences, and generate a highly heterogeneous society. The emphasis by some groups (and promoted by the development architecture during the period of liberalism) on a democracy based on individual freedoms and an economy based on individual competition contrasts with understandings of community-based democracy and community-based economy. The latter is held to in by particular by Bolivia's large indigenous population, in particular in the rural areas in the west (where the two ethnic groups with the largest population are concentrated), and less so in urban areas and in the east (where there are the largest numbers of ethnic groups but which are small in population).

ii) *Poorest groups excluded from benefits of market economy.* The market economy did not work for all, in particular for those that could not participate in it, and was also unable to expand beyond the limits of positive returns on investment. In the largest urban areas where the market economy worked at its best, the lower income quintiles benefited the most from infrastructure services reforms compared to the higher income quintiles (Barja, McKenzie and Urquiola, 2005). Those that were left out due to their poverty, particularly in rural areas and on the urban periphery, should have been helped much more strongly through different mechanisms (such as subsidies), particularly because in the Bolivian case the poor make up a large part of the population. Instead they were kept marginalized, hoping that the trickle-down effect would eventually reach them, which did not happen.

iii) *Excessive emphasis on particular aspects of the development problem.* The emphasis on the role of woman and gender in development was immediately accepted and valued, and was adopted and adapted by government and civil society. However, the more general issue of indigenous peoples in Bolivian development did not receive the same emphasis, even though indigenous women were the target of many studies. Similarly, there was an excessive emphasis on poverty reduction via improvement of access to services (education, health and other) and less attention to increasing incomes through employment generation and production opportunities (Baldivia, 2007). In addition the implementation of conditional cash transfers was also problematic. For example, cash transfers for the elderly benefited the middle to higher income quintiles more than the lower income quintiles (Jimenez, 2007). Even when aid had a positive effect on average income, those who benefited most were skilled workers while the biggest and poorest

⁹ Laserna (2004) has called it "El Ch'enko," a Qh'echua expression meaning "The Tangle," which refers to the coexistence of three economic rationalities (natural base, market base and family base) that make up the true Bolivian economic model and at the same time become its fundamental structural constraint.

group, the rural small-holders, were worse off year after year (Andersen and Evia, 2003). Last, there was an excessive emphasis on developing a capital intensive, natural resource based economy not articulated with the rest of the economy. This reproduced once again the historical growth pattern of a narrow based economy as opposed to a broad based economy (Gray Molina, 2003 and UNDP, 2005).

iv) *The so called “internal colonization¹⁰” problem was not acknowledged.* This problem refers to the economic and politically dominant position of the mixed blood population over the several indigenous populations. This is now a major issue in Bolivia that helps understand why there is a now a Constituent Assembly with the mission of rewriting the national constitution (see later in this paper for more details). It also helps to explain a wide perception that the aid architecture was not politically neutral but had aligned itself with the dominant group - although many Bolivians would not agree and regard this perception as extreme. Mansilla (1998) suggests that Bolivian society has historically been evolving following a complex equilibrium between the preservation of traditional cultures with their particularities and the adoption without any questioning of elements of the modern occidental civilization with its universalisms. The propensity to impose modern ideas, sometimes violently, generates a reaction that leads to the perception that cultural differences are antagonistic and mutually excluding.

v) *Source of development knowledge.* While it could be argued that governments appropriated and owned new development ideas promoted by the development architecture during the period of liberalism, this nevertheless remained problematic because only a small proportion of society shared these ideas. Instead, this generated a disconnection between government and a large part of society, which fed into governance problems, including political instability during the early 2000s. In any case, it is Bolivians who needed to develop their own understandings of their own problems given the overwhelming importance of Bolivian specificities.

There are currently few universities, government and private entities that produce research and debates, and they do so under enormous financial disadvantages, time constraints and academic isolation. Local universities as well as government and private entities often take reports from the aid architecture and their recommendations as scientific, when in fact they only represent “best practice” in a different context. There is currently little capacity or effort to critically review current debates on the scientific literature. The result is often confused academics and populations and the generation of knowledge and research distortions. This reflects findings by Girvan (2007), who argues that power imbalances in knowledge are expressed in northern dominance of knowledge construction, reproduction and dissemination, and the solution to this problem is the knowledge empowerment of the south.

vi) *Governance challenges.* Not all problems came from donor influence and the domination of northern knowledge. Bolivians know that government itself was an important part of the development problem because of weak government and governance. The domestic dispersion of several development visions generated a

¹⁰ For more on this concept see Silvia Rivera Cusicanqui (1984 and 1993).

government with a profound internal political conflict, which helps explain its structural inefficiency, excessive political interference and its permanent instability (which is different to lack of government commitment). Weak government and governance has been (and continues to be) the expression of a fundamental structural constraint, which together with the lack of a regulatory framework regarding aid flows, had a significant impact on ownership and aid effectiveness.¹¹ Donors used this to find a comfortable niche for their aid operations, frequently bypassing government and following their own heterogeneous visions, and thereby indirectly contributing to further weakening of government and governance.

Weak government and governance have also fed back negatively to aid effectiveness through the following channels of influence:

- i) institutional weaknesses expressed in insufficient alignment, coordination and communication within and among government organizations
- ii) not enough qualified human resources for quality technical and administrative functions, high personnel rotation every time there is a political change, and centralization of decision making
- iii) counterpart resources not available when required because of bad administrative planning, diversion of resources to other government priorities and insufficient collection of own resources
- iv) information that is neither precise, timely nor available when required, which has affected decision making processes as well as reporting and monitoring processes
- v) limitations in the capacity to manage social participation processes and communication with society
- vi) Government not able to fully commit to reform agendas given the political risks
- vii) public policies often too general, lacking sufficient detailed strategic, operational and political planning
- viii) the same types of problems reproduced at lower levels of government with much greater intensity, generating even weaker sub national governments.

Implementation of National Dialogues under the PRSP framework and HIPC II incentives was one way of facing fundamental or first level ownership problems, particularly when the political party in government had to build coalitions through political pacts. Today a new National Constitution is being written in the Constitutional Assembly and this is certainly another way of facing the fundamental or first level ownership problem. The Constitutional Assembly is however operating in an environment of disarticulation of political and economic power between the Bolivian western and eastern regions, and increasing multicultural desegregation as opposed to social cohesion. A recent UNDP Human Development Report on Bolivia titled “state of the State,” expresses the current political environment as a “battle among visions about what the Bolivian State is, does and should do” where there is consciousness about the

¹¹ Currently the Paris Declaration is being used as the key framework for aid flows.

existence of a “weak, fragmented and partially sovereign State that reflects a society that is heterogeneous, divided and unequal, and that contributes to the reproduction of the same society, therefore being part of the problem and solution to the labyrinth of unresolved tensions (UNDP, 2007, p30).

b. Second level ownership problems

Second level ownership problems concern the weakening of domestic public organizations and institutions, or more generally the weakening of domestic capabilities because of an accountability problem. In Bolivia the aid architecture has operated under a belief in its natural “right” to manage the resources it was giving, based on the legitimate requirement of donor accountability to its tax payers. The combination of this accountability requirement with weak governance created incentives for conditionality, with the inevitable by-product of further weakening domestic public organizations, institutions and systems. In other words, there is a trade-off between donor accountability and recipient ownership. Donor conditionality (and loss of ownership) extended to the full range of donor activities: once a donor decided on the degree of concessionality of its loan¹² or ultimately grant, conditionality continued toward different degrees of dominance over the hundreds of decisions during a project or program implementation, from beginning to end.

De Grave (2007) suggests that “the relationship between donors and beneficiaries in Bolivia has been ambiguous and frustrating for both sides, characterized by the power relations that result from aid as a gift and that it is in support of the Bolivian political and economic elite, all of which did not contribute to ownership.” In a similar vein, Nickson stated in 2002:

despite evident progress, the terms ‘partnership’ and ‘ownership’ are still understood differently by donors and partners in Bolivia, especially with regard to the difference between loans and grants. According to partners, in-country donor staff still regard themselves as sole owners of grant aid, whereas they accept that loans involve a degree of shared ownership. While donor politicians in headquarters and senior participant politicians accept the meaning of both terms, the meaning is very different among in-country donor staff and participant staff involved with execution. The former often in practice regard themselves as sole owners. Ironically, the latter tolerate this ‘external’ ownership on the grounds that ‘some aid is better than none’, even though the resulting allocation may not reflect government priorities (Nickson, 2002, p21).

It is important to note that the trade-off between ownership and accountability disappears in the case of a commercial loan where all decisions belong to the recipient. Under this analytical framework it would be important to know if the economic, social and capacity costs associated with the recipient’s loss of ownership are compensated by the financial

¹² The mix of interest rates, payback period and grace period.

savings from a concessional loan or grant.¹³ In recent years Bolivia has experienced innovative approaches to financing with the aid architecture, like basket funds, sector wide approaches and direct budgetary support, all of which are intended to improve government ownership as well as use of its own institutions and systems. Nevertheless, second level ownership problems were related to the economic distortions that were generated by the “donor accountability-recipient ownership trade-off”. Some of them are the following:

i) *The problem of parallel government agencies or units.* In order to ensure efficient project execution, the aid architecture tried to depend as little as possible on government organizations, which it viewed as inefficient and unstable. Instead, it created its own units for planning and execution. The results were that government offices were weakened and left with residual participation, but in many cases were later burdened with the responsibility of project sustainability. De Hann (2006) states that “international cooperation to Bolivia had a double impact; it contributed to Bolivian investment needs and it introduced distortions through the parallel units it created, as well as labour market distortions as a result of the cooperation’s impatience to execute projects, and on average in the best of cases, foreign aid has prevented Bolivia from drowning in its problems.”

ii) At times the aid architecture, in coordination with government, supplemented wages of government officials and contracted advisers and teams of national and international policy consultants. It did so in an environment of weak government and fiscal constraints in order to reinforce and ensure further policy development at the central government level. At other times the architecture concentrated on contracting teams of policy consultants under government request and needs. Through this the aid architecture drove policy development and implementation, with government officials, advisers and consultants seconding it (see Fernández Terán, 2004). During the 1990-2006 period, the contracting of consultants by the government with aid architecture funding was an annual practice that fluctuated between a minimum of close to \$20 million in 1991 and 2004 and a maximum of close to \$80 million in 1999 and 2001, averaging about 70 per cent of government expenditures on this activity (see UN Human Report on Bolivia (2007)).

iii) *Labour market distortions.* The contracting of consultants for further policy development and research and the creation of parallel units for the execution of projects as well as for research, planning and administrative activities often involved hiring trained Bolivians and foreigners with salaries, on average, above domestic market levels. This created labour market distortions, a phenomenon which has occurred since the 1990s. When foreign financial resources for these activities was not available, Bolivian professionals were absorbed by the private sector (to existing activities or new ones) or migrated to other countries. The loss of trained government officials to the international aid architecture was significant.

The combined problem of the creation of parallel project units and of labour market distortions is well summed up by Urioste:

¹³ The financial saving would be the difference between the mix of interest rate, payback period and grace period of a concessional loan compared to the market level.

...the international cooperation should be more humble and less arrogant; here every agency of cooperation believes they own the truth and manage their resources with complete autonomy and reserve. They have generated a parallel state and have absorbed our main intellectuals. Our best people are working with the international cooperation, not in ministries, not in NGOs and not in universities (Urioste, 2007, p183).

c. Third level ownership problems

The third level problem of the aid architecture is related to the high administrative costs generated by the “multiple agencies problem”, namely the large number of external agencies involved in Bolivian development. VIPFE (1999), Quinteros (2001), Nickson (2002), Camacho, Carvajal and Marinkovic (2005) mention this problem and identify the following burdens:

- excessive number of missions
- duplication of reporting systems, programming cycles and procurement procedures
- imposed technical assistance and parallel management systems
- lack of or insufficient decentralization of decision making from donor headquarters and hence inflexibility
- late detection of problems, bottlenecks and poor donor coordination
- excessive personnel, bureaucracy and project expenditures from both sides to meet requirements
- no transfer of reporting and monitoring systems technology.

All of these not only increase administrative costs, but above all weaken domestic administrative capabilities, therefore affecting ownership, which is an additional unnecessary cost. These problems have been clearly acknowledged by the aid architecture and were a central issue for several international conferences. They are also addressed by the Paris Declaration on Aid Effectiveness of 2005.

There is also an important and increasing amount of literature on the general issue of aid effectiveness with a transaction cost bias, in some way suggesting that solution of the “multiple agencies problem” will solve the aid effectiveness problem. Moreover the aid architecture has made efforts to improve in these areas, which will be evaluated under the Paris Declaration framework. However, finding solutions to these third level problems does not solve the first and second level problems identified above which are more intrinsically related to ownership; it works the other way around. If policy is predominantly produced based on local knowledge and if projects and programs are implemented strictly by using local systems, institutions and organizations, then most of the multiple agency problems would tend to disappear. If Bolivia had one common vision within society, captured by government, then ownership would not be an issue; the government itself would be significantly better organized and more efficient. There would therefore also be less aid organizations to manage with much better and functioning regulations and processes.

IV. New Situation starting in 2006

1. Key issues and outcomes in the new development context

The intensified political, social and economic tension and instability during the first half of the 2000s generated significant levels of uncertainty that affected household behavior and investment, and that at one point (2005) even included the open threat of civil war. A political agreement in 2005 paved the way for implementing a Constituent Assembly and Referendum for Autonomies in 2006, which halted further political instability and escalation. Garcia Linera, the current Vice President, said in an interview by Natanson (2007) that “Bolivia is experiencing a process of broad and generalized battle and redistribution of power, beyond just one government. There is a broadening of elites, of rights and a redistribution of wealth; this in Bolivia is a revolution. What the old elites must understand is that from now on they have to share all decisions with the indigenous. They can never again take decisions without consulting with the indigenous. If they could understand that, there would not be any complications”.¹⁴

Profound public sector reforms are expected to begin once the new National Constitution is approved by the population in a national referendum. It is hoped that the new Bolivian state along with its sub national levels and autonomies will become part of the solution during the next transition period and more so later on, together with improved governance, leadership and ownership. It may be a risky bet. Nevertheless, the development architecture is expected to respect, align and support this new democratic structure and leadership on a long term basis, even in bad political, social and economic times.

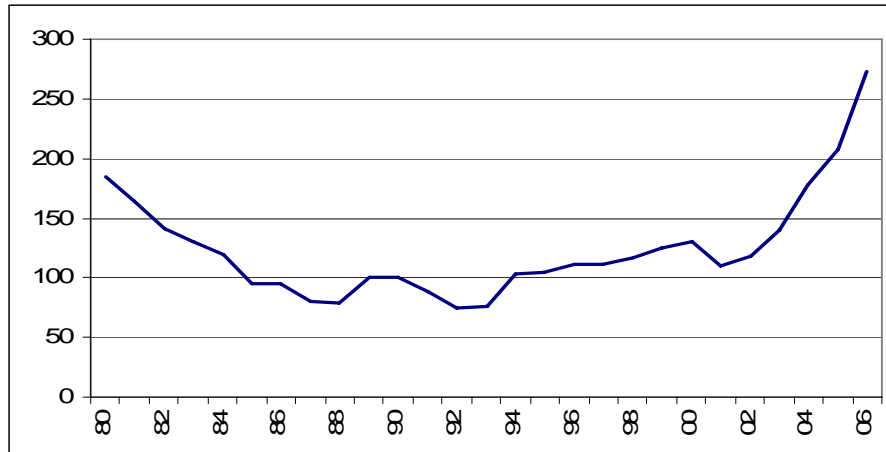
An absolutely surprising and unheard of result was that in 2006 the government produced a positive global fiscal balance of 4.6 per cent of GDP (see Figure 2). This is clearly explained by the combination of higher prices and volumes for natural gas exports and by the introduction of the Hydrocarbons Direct Tax (IDH¹⁵ in Spanish) of 32 per cent of natural gas export revenues. The tax was introduced by the Morales government with great opposition from the international development architecture and foreign petroleum companies. Nevertheless, it broke with the fiscal structural problem. The question now is whether this outcome will hold in the medium term. Some Bolivians are pessimistic, believing that the natural gas price will fall following a possible fall in international oil prices, that further investment is needed to develop the natural gas sector, and that FDI may not be available. Others are more optimistic and think international oil prices will remain high in the medium term and government will manage to attract FDI for the needed investments. For the latter, worries are more about short term inflationary effects and a possible medium term Dutch Disease problem. The positive fiscal balance also raises questions as to the need for further support from the international aid architecture. At this point in time it is simply too early to tell.

¹⁴ In October 2007 the Bolivian Congress approved Law 1101 containing the United Nation’s Declaration on the Rights of Indigenous Peoples, which was approved by the UN in September 2007.

¹⁵ This tax was previously approved in the new Hydrocarbons Law in May 2005.

It is also important to mention the latest positive external shock that began with the growth rates of the economies of China and India. These have improved the international prices for Bolivian mineral exports. This and other events resulted in large price increases in the oil market that improved Bolivian natural gas exports, both of which contributed to a significant improvement in Bolivia's terms of trade and which are today contributing to economic recovery. Figure 4 shows the Bolivian Exports Buying Power Index (EBPI) which has increased substantially in recent years making the Bolivian economy profitable again after two decades.

Figure 4: EBPI 1980-2006 (base 1990)



Source: UDAPE

In addition, as mentioned before (see Figure 3), under the MDRI the country benefited with a significant foreign debt reduction to 40 per cent of its 2005 level. Workers' remittances from abroad have also increased exponentially in recent years. All of these factors have certainly changed the macroeconomic picture; however the microeconomic environment of low investment rates and uncertainty remains the same. Government entities at the central, regional and municipal levels have low operational capacities and can not scale up public investment, the small domestic private sector does not invest due to uncertainty since 2003 and the large amount of micro-enterprises operate mostly on a family survival mode. Plus there are inflationary pressures because the productive sector can not cope with the excess demand.

In the recent past, donors that provided concessional and grant financial resources and that held the implicit "right" to their management faced a weak government that was dependent on foreign finance and which believed it may or may not receive support. In this game, the win-win outcome resulted in both players following the optimal strategy of cooperating. This is what the international aid architecture refers to as partnership in development. However, the current Bolivian external sector boom (natural gas and mineral exports and worker remittances) has generated a temporary window in time in which the government does not face the urgent need for external finance and to organize the old and traditional Consultative Group. The question now is if the international aid architecture and the Bolivian government and society will be flexible enough to fully

adjust to the new situation. So far what is being observed is that neither was prepared for the sudden change that has occurred.

2. The issue of sovereignty

Bolivian politics are complicated, highly dynamic and unpredictable. However, regardless of future events, the 2006 elections may be seen not only as a return to government-led development but also as an attempt to draw a type of “sovereignty line” with respect to the degree of foreign participation in Bolivian development. The Bolivian experience with the international development architecture, in terms of its degree of influence over ownership, together with the degree of influence of foreign private firms through FDI in key sectors of the economy, was perceived by many Bolivians as “too much” foreign influence and “too much” loss of sovereignty (in Bolivia the word ‘sovereignty’ is used instead of the word ‘ownership’). For other Bolivians this was not the case: foreign influences, both from the international aid architecture and from FDI, were consistent with their own vision and that of the Bolivian government, which favoured an increasing engagement with globalization and markets. For these groups, the country’s relationship with the development architecture did not involve loss of sovereignty because it was consented and shared.

However, the December 2006 presidential elections can be seen as a practical test of the question of where the majority of Bolivian people think is the limit of foreign participation, and of where sovereignty begins. In the election, 54 per cent of the population supported the arrival into government of a political party that criticized excessive foreign influence over development policy and strategy and the distribution of the benefits derived from natural resource exploitation, and that emphasized nationalization policies and “decolonization.” The current government’s National Development Plan (PND, 2006) declares in its foreign policy chapter that foreign dependence and interference has limited the sovereign capacity of political and economic action, weakened negotiating capabilities and decision making as well as regional and sub-regional integration. It also states that it is now the decision of the Bolivian people that policy evolves without foreign interference, ensuring the defense of sovereignty and recovering the capacity for decision-making on fundamental questions about the nation’s destiny¹⁶.

The Morales government’s National Development Plan

The Morales government was the first in two decades to develop a National Development Plan without consultations with the international development architecture. The government presented its NDP in July 2006 to the country and to the international architecture in the hope of gaining their commitment to support it. The architecture’s initial reaction was one of support, but it suggested that the plan should be made more specific and operational, and that it should show the feasibility of programs and projects

¹⁶ The argument of excessive foreign influence to the point of perceived loss of sovereignty can be supported with article (k) of the Declaration on the Inadmissibility of Intervention and Interference in the Internal Affairs of States, approved in December 1981 by the United Nations General Assembly.

and the reliability of processes beyond the political discourse. The aid architecture also required that cooperation should be under the MDGs and Paris Declaration frameworks. From the point of view of government, the aid architecture should expand its working framework beyond individualism and market competition, and should include the vision of community development based on respect and the wide participation of local cultures and organizations of the poor.

For the government this is not a political discourse; it is the only way to help the poor. The government also requires cooperation within the framework of the Paris Declaration and the MDGs, but this must be under its own development vision, and must be accompanied with activities that generate income, employment, productive infrastructure and microfinance. It must also be focused in rural areas and on micro-producers, as expressed in the government's Social Protection Network Program, which is part of the NDP.

Throughout 2006 the government continued presenting its NDP, expecting support and alignment without opening it for discussion and negotiation, because that would mean opening the door to conditionality. Initially the aid architecture did not accept this approach, but over time the government was able to develop a range of agreements. These were reached with several multilateral agencies including the World Bank, IADB, and CAF (which adopted a pragmatic relationship under a project approach). Bilateral cooperation agreements were also reached with the governments of Venezuela and Cuba, with several European countries, and with the US, Japan and China. The cooperation programs of these countries were aligned with the Bolivian government's priorities to differing extents. Agreements were also reached with private investors from India. Also, as expressed by some officials, the government is working to make the NDP operational and this exercise may help the government and the international aid architecture to find a new equilibrium in their working relationship.

Both the Morales presidency and the Siles Suazo presidency of 1982-1985 are instructive as comparisons with the liberalism period of 1985-2005, and as different experiences of sovereignty/ownership. In these cases there was/is a stronger implementation of the government's vision (but each with different outcomes). The Siles Suazo period has historical importance: it was the first presidency in the new democratic period, after decades of military governments. Foreign debt had been acquired during the previous military governments, and under the new populist regime it was not recognized as the people's debt. This led to the declaration of a unilateral moratorium on debt repayments, a position which, along with the government's socialist ideals, was unsurprisingly rejected by the international development architecture of the time, and which meant the government had no further access to loans. The Siles Suazo presidency therefore probably represents an extreme case, during which the government did not only lack access both to foreign debt and the support of international development architecture, but also faced an empty treasury due to the fiscal crisis. The government's financial collapse was inevitable. Unable to control hyperinflation, President Siles Suazo decided to end his term one year early.

Bolivia's entry into severe debt under the Siles Suazo presidency at the same time as coming out of the worst economic crisis in its history (hyperinflation in 1985 peaked at 11,000 per cent), later gave substantial negotiating power to creditors. This power was further concentrated through the Paris Club debt relief mechanism, with bilateral agencies, the World Bank and IMF as participants. The result was that approval from the Paris Club was necessary before any future multilateral loan could be given to the country. This mechanism functioned in Bolivia since 1986. Coordination between the IMF and the World Bank was particularly significant, because the government had to first have an agreement with the IMF before it could have access to World Bank resources. In this way the IMF was able to introduce its financial programming with detailed monetary and fiscal follow up to ensure macroeconomic stability. As well, the World Bank was also able to introduce its own development approaches, particularly its emphasis on private sector development and later on poverty reduction. Over time other multilateral and bilateral agencies decided to coordinate and follow the lead of the World Bank.

The Morales presidency is also a special case, in which the Bolivian central government has also apparently chosen to isolate itself from the development architecture. It therefore enjoys less support from the architecture than some Prefecturas (regional governments) and municipalities (local governments), particularly those that support liberalism. This is hardly surprising: after all, the Morales presidency announces an end to the period of liberalism, including through the introduction of its own ideas expressed in its NDP. However, in this case the government treasury is in a better position (no fiscal crisis), although by law the majority of government income flows directly to Prefecturas and municipalities (an irony given that the increased fiscal rents from the oil & gas sectors were an achievement of the political party currently in central government).

3. Role of old and new development architecture actors

There is a general perception that remains from the 1985-2005 period regarding the roles and strengths of agencies that constitute the international aid architecture. In relation to multilateral agencies for instance, the strength of the IMF is seen as macroeconomic stability and balance of payments support. Today, the Bolivian government does not have an agreement with the IMF, except for Article IV Consultations; yet macroeconomic stability and its behaviour are being followed closely by the government using financial programming instruments introduced by the IMF.

The perceived strength of the World Bank today is support for poverty reduction (health and education) as well as productivity increase strategies (the competitiveness approach to small business) that impact the micro economy through national scale and long-term concessional loans, and also public sector strengthening. The current Bolivian government has discontinued the PRSP approach for poverty reduction and has only a limited interim agreement with the World Bank for a two year period (2006-2008), for a \$140 million concessional loan directed to investment needs, technical assistance and public policy. The strength of the IADB and CAF is seen as in the area of large scale and long-term loans for infrastructure development as well as emergency lending. At present Bolivia has several loan agreements with both organizations. The strength of the UN

agencies are in developing frameworks for establishing minimum goals for human development, and their human rights and democratic approaches to development. The MDGs and their targets promoted by the UN are a valued reference point for development in Bolivia today. In times of difficult political tensions (national or international) the UN is seen by Bolivians as a reliable and impartial organization.

Regarding bilateral cooperation and in particular foreign NGOs operating in Bolivia and domestic NGOs with foreign financing, there is a perception that these agencies will continue to operate following their own objectives. The government does develop efforts to align bilateral cooperation agencies towards government policy; however it does not have the power to do so regarding NGOs. There is a general presumption that whatever these organizations do will be fine given their natural sense for social responsibility. Whoever they reach will be better off compared to the alternative of not being reached by government at all.

In the Bolivian case new participants in development cooperation are basically Venezuela and Cuba. Nowadays there is considerable amount of political noise regarding these relationships. For instance, an interviewee for this study suggested that the current government is simply switching its foreign political dependence, not ending it. However, beyond the political noise, the cooperation programs show exchanges that seem to be fundamentally pro-poor, small in scale, but with significant impact among the families that benefit, thus operating almost like a traditional NGO. The National Literacy Program was launched in 2006 with the objective to eradicate illiteracy in Bolivia.¹⁷ The People's Trade Treaty (TCP in Spanish) signed with Venezuela and Cuba has agricultural development among its objectives.¹⁸ Creation of a government National Development Bank financed by Venezuela is directed to microenterprises through subsidized loans.¹⁹ Financial support by Venezuela for the direct transfer of financial resources to municipal governments is based on identified projects by the municipalities, mostly in the area of infrastructure and following Government Decree DS 29079.²⁰ There is also open and strong political support from Venezuela for the Bolivian government with an equally corresponding domestic questioning of it.

4. The MDGs and the Paris Declaration

Although the arrival of the Morales government resulted in a new relationship with the international development architecture, this did not mean abandoning some of the

¹⁷ This program is accompanied by a literacy program in Aymara and Quechua, a free health service program in remote rural areas and the construction of 23 rural hospitals planned for 2007. The program is executed by hundreds of Cuban teachers and medical doctors. Bolivian teachers and doctors have expressed their opposition, but this has been countered by beneficiaries of the services, as well as by the President himself.

¹⁸ One specific program that is functioning is the Venezuelan preferential acquisition of Bolivian soybean production at prices above the international level plus access to preferential credit. Its key access characteristic is the requirement of being a small farmer belonging to an indigenous community.

¹⁹ Capital support from Venezuela should eventually reach up to \$65 million. Fears were expressed that it would distort the private micro finance that has slowly built during the past two decades.

²⁰ Nevertheless, article 26 of the Government Decree 28666 of April 2006 allows regional governments (Prefecturas) to lobby and subscribe to direct grants from international cooperation agencies.

architecture's key frameworks such as the MDGs and the Paris Declaration. For instance, in relation to the MDGs, the government developed its main social program called Social Protection Network and Community Development (which later became the Supreme Decree 29246 of August 2007). Its policies specifically indicate the objective **“to reach the MDG's”** in the following areas:

- poverty programs: income and employment generation through small firms, microfinance, rural development and infrastructure
- education programs: zero illiteracy; new ICTs (Information and Communications Technologies); municipal education; access and permanence of girls in rural area schools; professionalization of interim school teachers
- health programs: intercultural and community systems; law on vaccines
- nutrition programs: zero under-nutrition; micro nutrients; food security.

It is expected that the Social Protection Network will target the extreme poor in the poorest municipalities and it also considers unconditional cash transfers. The new government also continued with the MDG reporting activities of previous governments and produced the 2006 4th MDG report, including an additional report on MDGs and Indigenous Peoples in order to evaluate the MDG gaps between indigenous and non indigenous populations. It also created an on line information system.

Did the arrival of the new government mean abandoning the Paris Declaration on Aid Effectiveness? No. The government's NDP explicitly states that “policy regarding the international cooperation will be oriented to put order in the Government-Cooperation relationship, strengthen the processes of alignment and coordination, strengthen government leadership, improve resource allocation, and facilitate a flexible programming and harmonization of the mechanisms of monitoring and evaluation. This policy will become operational through a mechanism of coordination that establishes working groups with the international cooperation under the framework of the NDP” (PND, 2006, p204).

The policy contains key elements of the Paris Declaration and recovers some of the traditions that began with the 1999 government's New Framework for the Relationship with the International Cooperation,²¹ which was followed up by working groups and joint missions. Moreover, the current government, through VIPFE, is using the Paris Declaration in its day to day negotiations with the international aid architecture. The Declaration is perceived by the few government officials that know about it as an international development landmark. Full compliance with the Paris Declaration is pursued as an objective because the Declaration is understood as a reform in itself, the end result of changes in processes that must occur in both Bolivia and the international

²¹ The Framework proposed a set of principles and actions. The principles were: Compatibility and complementarities with government's development plans; Bolivia sets the pace and goals; efficiency; accountability; sustainability; strengthening of institutional capabilities; complementarities in efforts, and transparency. The actions were: Definition of a strategic framework, priorities and programs; programs by results; supervision, monitoring and evaluation; achieving better decentralization; re-programming and re-assigning resources; elaboration of multi-annual budgets; search for joint financing; acquisition of goods and hiring of workers.

development architecture. For this reason, discussion on aid effectiveness within VIPFE is not about developing new ideas beyond the Paris Declaration, but rather on how to execute it. Currently the government has reactivated the coordination mechanism of round tables under the framework of the NDP. However, there is also the perception that the interaction between government and the international architecture has not reached the desired levels of cooperation established in the Paris Declaration, in terms of alignment, capacity building and harmonization. Yet there is acknowledgment that both parties are in a learning process and moving in the right direction. Even if progress is slow they are adjusting their vision, procedures and systems toward achieving the commitments in the Declaration.

More recently, in October 2007, the government approved Supreme Decree 29308 regarding the “Regulations on the Administration and Use of Foreign Grant Resources”. The Decree makes specific references to the Paris Declaration regarding the commitment of donors to align to domestic development strategies, follow domestic institutions and procedures, and contribute to strengthen local capacities. It mentions the government’s desire for donors to align to the NDP and work with government entities under the framework of the Bolivian legislation, in particular the Government’s Administration and Control Law of 1990 (Ley SAFCO). The Decree establishes the obligation to register all grants received from multilateral, bilateral, NGOs and private entities and to provide information regarding their use. In particular, information must be provided regarding the amounts, beneficiaries, object and length of grants. Other aspects of the decree state that only government administration units are responsible for the execution of program and projects based on foreign grants; only Bolivian regulations may apply for the acquisition of goods and services; government organizations that administer grants can not hire third parties; political or ideological conditionality is forbidden; program and projects financed by foreign grants must have an external audit at their completion, and government officials and personnel that have developed activities directly or indirectly with foreign grants can not work or be hired by international cooperation agencies for two years after leaving government.

5. The need to generate new scenarios of cooperation

The magnitude of poverty and inequality in Bolivia, as well as production and management constraints, are simply too great and overwhelming, even under current exceptional macroeconomic conditions. This is why the international development architecture will continue to be needed.

In the current scenario of cooperation, the government is likely to increasingly seek the financial support of the international development architecture, and to shelve some of its distrusts and accept some conditionality. The development architecture will increasingly align itself to the NDP and current government leadership, erasing some of its distrusts and actively supporting the programs and projects that come out of an operational NDP. However, this scenario may be equivalent to slowly going back to “business as usual” in that it would tend to reproduce the first and second level ownership problems outlined previously in this paper because of weak government and governance.

In addition, political, social and economic instability may remain in Bolivia for many years, leading to the reproduction of weak government and governance. Instability may continue to be fed by internal political shocks as well as by natural disasters and external shocks. The next external shock may result from a drop in international prices of the main Bolivian exports (minerals and natural gas). This shock may be inevitable in the medium term and it would certainly be dramatic for the Bolivian economy, shifting it back to a position of dependency. However the long term development challenges of poverty reduction and productivity increase must be reached regardless of the environment of vulnerability and uncertainty. Acceptance of this framework allows transition to a second scenario of dialogue and cooperation with the international development architecture. Under this scenario, the Bolivian state would promote in the short term a national agreement or pact (expressed in a national law approved by Congress) in favour of reaching a specific set of long term Minimum Poverty Reduction Goals, Minimum Inequality Reduction Goals and Minimum Productivity Increase Goals. These can be described as “Minimum Goals”, although they could equally be referred to as improved MDGs, because they would involve a better equilibrium between providing services and improving incomes.

The main characteristic of these agreed Minimum Goals is that they would be pursued by all governments regardless of their political views, particular development visions and the major interest groups that they represent. This characteristic deals with the problem of internal political risk and uncertainty. The international development architecture would align itself to these goals, and support them on a long term basis regardless of the ideology of the government in place and its policies, regardless of the degree of uncertainty in the national economic environment and the confrontations that government might be facing internally, and regardless of the international economic environment and confrontations Bolivia might be facing externally. This characteristic of the Minimum Goals deals with the problem of risk and uncertainties that result from external shocks and also deals with the problem of the lack of neutrality regarding national and international issues. This implies a development architecture that is fundamentally neutral and disconnected from Bolivian internal conflicts as well as external factors. The political neutrality proposed here responds to the fact that poverty, inequality and productivity issues faced by those who live under the poverty line can not wait for the solution of all internal political problems.

The achievement of political neutrality actually requires political will for a pact or broad agreement among the different conflicting groups. Is this too unrealistic to achieve? The answer to this question leads to the discussion of the contents of the Minimum Goals. There may be a higher possibility of agreement on MDG-type goals which tend to be strictly social (education, health, nutrition, etc). Agreement on both inequality and productivity issues is more difficult to achieve, because both are much more influenced by ideological positions.

The Minimum Goals would be transformed into minimum operational annual goals and specific government entities would be identified as responsible. The minimum annual goals would be transformed into multi-annual budgets and these would be presented to the international development architecture through a new mechanism of interaction or

coordination mechanism, somewhat similar to the Consultative Group meetings, with the important difference that it would be under the new international framework of the Paris Declaration and the Human Rights Declaration, rather than driven by foreign debt management issues and conditionality. This coordination mechanism would function under Bolivian leadership and its main responsibility would be to ensure support, alignment and harmonization around the Bolivian proposal for reaching the long term Minimum Goals. The coordination mechanism would ensure, together with the Bolivian government through a counter part office (VIPFE), that the main activities of the international development architecture related to the Minimum Goals are channelled through this mechanism only. The Minimum Goals do not need to be in contradiction with the MDGs. Instead, they must be complementary to them, particularly in the area of minimum productivity increase goals. In addition they must capture Bolivian specificities regarding its geography, history and multiculturalism, and would most probably have a bias towards rural development.

The structure of financing of the Goals should be flexible (concessional loans, grants and government allocations) and should cover the administration costs of the projects and programs with Bolivian personnel and the required international assistance. A key characteristic should be that annual expenditures would be determined by the established annual goals and not by budget constraints. The minimum goals do not prevent the pursuit of other development agendas: the development architecture can follow other interests in relation to Bolivia, and vice versa. However, these other agendas must not be in contradiction to the Minimum Goals. Also, the contractual terms and conditionality for financial agreements beyond the minimum goals should be the normal procedures of the international development architecture. As suggested by an interviewee for this study, approval of the Law should already contain defined sources of finance or, else, a defined fund with very well articulated functioning mechanisms in order to be credible.

This is equivalent to dividing the Bolivian economy into two areas for attention: the economy that has not met the minimum goals and the economy that has met the minimum goals, each having a different treatment from the international development architecture. The economy that has not met the minimum goals would be managed with the Minimum Goals strategy and the new coordination mechanism, since it is an economy whose population that does not have an equal opportunity to participate and succeed in the national and international market economy (the majority of Bolivians).²²

An alternative to the simple coordination mechanism could be the creation of an autonomous Bolivian Development Agency. This would be somewhat similar to the Peruvian Development Agency (APCI, 2006), with its own regulatory framework for the management of aid flows and based both on international agreements like the Paris Declaration, and also on the Bolivian development strategy, with strong requirements for use of Bolivian institutions and systems in order to ensure capacity building. This agency

²² Similarities to these ideas were found in Antezana (2005) who proposes a Permanent Development Forum managed by a politically neutral Consultative Committee, supported by government and aided by a network of "friends of the Forum". The Forum would have specified objectives, functions and many institutional characteristics that Antezana describes in detail.

would also have to be consistent with the current tendency for deepening the decentralization process in Bolivia.

References

- Agencia Peruana de Cooperación Internacional (2006). *Política Nacional de Cooperación Técnica Internacional*. APCI, Gerencia de Política y Programas.
- Alvarez, Fidel (2002). *Sistema de Información de ONGs en Salud en Bolivia 2001*. Ministerio de Salud, OPS/OMS, Banco Mundial, Procosi, Fenasons, Asongs, Congi. La paz, Bolivia.
- Ayo, Diego (2003). *Municipalismo Participación Popular: Apuntes de un proceso*. Muela del Diablo editores. La Paz, Bolivia.
- Andersen, Lykke and José Luis Evia (2003). *The Effectiveness of Foreign Aid in Bolivia*. Documento de Trabajo 10/03: Instituto de Investigaciones Socio Económicas, Universidad Católica Boliviana.
- Andersen, Lykke and Oswaldo Nina (2000). *The HIPC Initiative in Bolivia*. Instituto de Investigaciones Socio Económicas, Universidad Católica Boliviana.
- Antezana, Oscar (2005). *Destrucción creativa de la relaciones de poder: Anatomía de una estrategia de reducción de la pobreza*. Bolivia: Fundapro y Plural.
- Baldivia, José (2007). *Pobreza en Bolivia*. In: Diego Ayo (editor.) *Democracia Boliviana. Un modelo para des armar: 32 entrevistas por Diego Ayo*. Bolivia: Fes-Ildis and Oxfam.
- Barja, Gover., Javier Monterrey and Sergio Villarroel (2004). *Bolivia: Impact of shocks and poverty policy on household welfare*. International research project on Macroeconomic Challenges in Low Income Countries. The Global Development Network (Coordinating Agency).
- Barja, Gover., David McKenzie and Miguel Urquiola (2005). *Bolivian Capitalization and Privatization: Approximation to an Evaluation*. In: John Nellis and Nancy Birdsall (editors.) *Reality Check: The Distributional Impact of privatization in Developing Countries*. Center for Global Development, Washington D.C.
- Banco Central de Bolivia (2003). *Bolivia y la Iniciativa HIPC*. Documento de Trabajo, Asesoría de Política Económica, Sector Externo.
- Banco Central de Bolivia (2005). *Anuncio del G8 de Condonación de la deuda Multilateral de los Países HIPC*. Ayuda memoria No. 11/05. Asesoría de política Económica, Sector Externo.
- De Grave, Jennie (2007). *Estado Boliviano y Cooperación Internacional: Malestar, Responsabilidades, Aperturas*. Documento de Trabajo, Informe sobre Desarrollo Humano en Bolivia. PNUD/Bolivia.
- De Haan, Peter (2006). *El Desarrollo en Retrospectiva: La Economía del Sentido Común*. Bolivia: Plural Editores.
- Carafa, Carlos (2000). *Los Grupos Consultivos y los Pronunciamientos sobre Pobreza*. In: Instituto Prisma (editor.) *Las Políticas sobre la Pobreza en Bolivia*. Bolivia: Plural Editores.
- Fernández Terán, Roberto (2004). *FMI, Banco Mundial y el Estado Neocolonial*. Segunda Edición, Plural Editores. La Paz, Bolivia.
- Girvan, Norman (2007). *Power Imbalances*. North-South Institute Project on: "Southern Perspectives on Reforming the International Development Architecture."
- Gray Molina, George (2005). *Estado como modus vivendi*. Documento de trabajo. Informe Nacional sobre Desarrollo Humano en Bolivia. PNUD/Bolivia.
- Gray Molina, George (2003). *Crecimiento de base ancha: entre la espada y la pared*. Revista Boliviana de Ciencias Sociales del PIEB: Tinkazos, año 6 No. 15.
- Instituto Nacional de Estadística. *Inversión Extranjera Directa 1996-2003*. INE: Bolivia, 2005.
- Jemio, Luis Carlos and Eduardo Antelo (editores.) (2000). *Quince años de reformas estructurales en Bolivia: Sus impactos sobre inversión, crecimiento y equidad*. Universidad Católica Boliviana and CEPAL/UN.
- Laserna, Roberto (2003). *La Democracia en el Ch'enko*. Fundación Milenio y Centro de Estudios de la Realidad Económica y Social. La Paz, Bolivia.
- Mansilla, H.C.F. (1998). *La identidad colectiva boliviana entre tradicionales valores particularistas y las modernas coerciones universalistas*. Papers. Revista de Sociología, año 1998, No. 56: 243-255.
- Mansilla, H.C.F. (2003). *La identidad colectiva y el proceso de modernización entre coerciones universalistas y valores particularistas*. Revista de Investigaciones Políticas y Sociológicas, Vol. 2, No. 1-2: 41-49. España.

- Natanson, Jose (2007). Las Reformas Pactadas: Entrevista a Alvaro Garcia Linera. Revista Nueva Sociedad No. 209.
- Nickson, Andrew (2002). *Bolivia: A Country Case Study*. DAC Task Force on Donor Practices. University of Birmingham, UK.
- Operations Evaluation Department (2005). *Bolivia: Country Assistance Evaluation*. World Bank.
- PND (2006). *Plan Nacional de Desarrollo*. Ministerio de Planificación para el Desarrollo, Gobierno de Bolivia.
- Quinteros, Rodolfo (2001). *Reporting and Monitoring Efforts in Bolivia*. OECD/DAC Task Force on Donor Practices.
- Rivera Cusicanqui, Silvia (1984). *Oprimidos pero no vencidos: Luchas del campesinado aymara y qhechwa 1900-1980*. Aruwiwiri, 4ta Edición 2003.
- Rivera Cusicanqui, Silvia (1993). *La raíz: Colonizadores y colonizados*. In: Xavier Albó and Raúl Barrios (editors.) *Violencias Encubiertas en Bolivia*. Cultura Política Vol. 1: 27-139. CIPCA-Aruwiwiri.
- UDAPE. *Dossier de Estadísticas*. www.udape.gov.bo
- UDAPE (2003). Estrategia Boliviana de Reducción de la Pobreza: Informe de Avance y Perspectivas.
- UNDP (2007). *El Estado del Estado en Bolivia*. Informe Nacional sobre Desarrollo Humano 2007. George Gay Molina (Coordinator). UNDP/Bolivia.
- UNDP (2005). *La Economía más allá del gas*. Informe temático sobre Desarrollo Humano. George Gay Molina (Coordinator). UNDP / Bolivia.
- Urioste, Miguel (2007). Desarrollo Rural. In: Diego Ayo (editor.) *Democracia Boliviana. Un modelo para des armar: 32 entrevistas por Diego Ayo*. Bolivia: Fes-Ildis and Oxfam.
- VIPFE (1999). *Bolivia hacia el Siglo XXI: Propuesta para un Nuevo Marco de Reracionamiento Gobierno - Cooperación Internacional*. XII Reunión del Grupo Consultivo para Bolivia.

Annex 1: Brief Review of Privatization

Privatization was a central policy designed to attract FDI and was strongly influenced by the development architecture. FDI outcomes were a result of public policy that began as far back as 1985 with the **Supreme Decree 21060** (NEP) favouring the market system and private sector development. Several laws followed favouring domestic and foreign private investment: the **Investment Law of 1990** which recognizes the same legal rights for FDI as for any domestic investment; and approval into law of several **Bilateral Agreements and Treaties** favouring FDI protection in Bolivia. **The Hydrocarbons Law of 1990** allowed FDI under contracts of operation or association. **The Privatization Law of 1992** allowed small-scale privatization with no significant FDI attraction, but introduced to society the idea that government should not participate in production activities but rather concentrate on social investment. **The Capitalization Law of 1994** allowed for the transfer of the main state owned enterprises to the private sector with strong FDI participation under the “capitalization” scheme in the energy, telecommunications and transportation sectors. Consistent with the previous laws, the **SIRESE Law of 1994** created the regulatory system which included several regulatory agencies by economic sector to administer the **Electricity Law of 1994**, **Telecommunications Law of 1994**, **Hydrocarbons Law of 1996**, **Water and Sanitation Law of 2000** and the **SIRESE Law** itself²³.

The first incident of political failure occurred in 2000 in the city of Cochabamba when a social uprising resulted in the expulsion of the foreign administrator of the water service. Other social uprisings halted government plans for further natural gas exports, particularly if they involved going through Chilean territory. By the year 2002 there was growing political opposition against further deepening of the market economy due to failure of the private sector to lead towards balanced economic development. As a result there was an increasing social demand for the return of greater government participation. **The Hydrocarbons Law of 2005** and the **Nationalization Decree of 2006** were a direct result of this and an indication that the market-led development strategy had ended and that government-led development had made a comeback.

Capitalization was successful in its main objective of attracting FDI and as expected it also brought other benefits. These included: i) gains in internal efficiency, ii) gains in profitability, iii) technology transfer, iv) improved access to basic services in urban areas, v) improved competition in some sectors, vi) increased production and workers’ productivity, vii) substantial poverty reduction among the workers in sectors where FDI happened, viii) development of the hydrocarbons sector through a ten-fold growth of natural gas reserves generating current and future opportunities for important fiscal rents and their macroeconomic consequences, ix) substitution of FDI for foreign debt for several years as a source of foreign savings.

However, there were also less positive outcomes. These included: i) poor or no improvement of access to basic services in rural areas where 41.5 per cent of households reside (only 37 per cent of them have access to potable water and 35 per cent to some

²³ For further details see Jemio and Antelo (2000) and Barja, McKenzie and Urquiola (2005).

sanitation, 18 per cent use gas for cooking and 74 per cent use firewood, 36 per cent have electricity and 2 per cent have telephone services); ii) little or no employment generation because FDI operated in capital intensive sectors; iii) two privatization failures (LAB and Aguas del Tunari); iv) a perception from the rest of the population (a majority) who did not benefit from liberalization that it only benefits the few and excludes the rest; vii) FDI concentrated on natural resources and was not integrated to the needs of the rest of the economy and society, viii) regulation had a focus concentrated only on efficiency.

Annex 2: Brief Review of Decentralization

Decentralization was another central policy influenced by the development architecture. The Popular Participation Law (1994) together with the Administrative Decentralization Law (1995) introduced a process of decentralization of political and economic responsibilities to the municipal system with pro-poor characteristics.²⁴ Among its most important accomplishments are: the legal recognition of indigenous territorial organizations in rural areas and neighbourhood organizations in urban areas who quickly appropriated the model; the automatic transfer of 25 per cent of national tax revenues (20 per cent municipalities and 5 per cent local universities) plus a menu of specific responsibilities and rules; the automatic transfer of HIPC II resources; salary payments of the education and health public system through the regional government system; other transfers through government funds and compensation mechanisms; the promotion of local citizen participation; the execution of public policies through the municipal and regional government system like the universal Mother-Child Health Insurance (began in 1996); universal basic education and Education Reform (began in 1994); the School Breakfast and later the school assistance incentive through a cash transfer (Juancito Pinto, 2007), and many others.

Some of the problems of the process are: insufficient local investment in education, health and infrastructure; inefficient and weak municipal governments; inefficient managerial and organizational capacities; little citizen control; coordination problems among levels of government and policy fragmentation; over dispersion of public investment; lack of a competitive vision; no incentive mechanisms for better performance; orientation to technical and legal processes rather than to political issues and results; excessive reliance on municipalization; rural bias and executive power decentralization bias.

Despite these problems, regional governments and municipalities receive additional resources from the hydrocarbons sector: 20 per cent of the special tax on oil and derivatives (IEHD in Spanish) is distributed to regional governments and 5 per cent to local universities; from the 18 per cent hydrocarbons royalty 11 per cent is automatically distributed to regional governments of producer departments and 1 per cent to two non-producer departments. More recently since 2006, out of the 32 per cent direct hydrocarbons tax (IDH in Spanish) approximately 8.32 per cent is automatically distributed to all municipalities, 2.24 per cent to local universities and 10.56 per cent to regional governments.

²⁴ For further details see Ayo (2003)

Annex 3: Brief Review of the PRSP Process

Use of freed resources from the Enhanced HIPC was conditioned on the elaboration of a PRSP with the participation of government, the private sector and civil society. The Bolivian government implemented a National Dialogue based on the demands of the 314 Bolivian municipalities plus other participating organizations. The PRSP approved in 2001 had several positive aspects: it succeeded in establishing the poverty agenda as central to development policy from then on; it contributed to the generation of information and measurement of poverty and inequality; it contributed to the strengthening of the municipal system and Popular Participation Law as the institutional framework for delivery, monitoring and evaluation, and it introduced the National Compensation Policy to compensate those regions that benefited less.

However, both the PRSP and the National Dialogue were also criticized on several grounds. Andersen and Nina (2000) criticized the PRSP growth projections as optimistic and the terms of trade and fiscal deficit projections as unrealistic, and noted that the National Dialogue generated reactions from the political system in that it was unconstitutional to create a forum for decision-making parallel to Congress. Also based on opinion polls at the time, they generally found support for the link of debt relief with poverty reduction, although with many suggesting that resources should be used not only in social investment but also for investment in the production sectors, and that trade agreements with the US may be even more important. Others thought the Dialogue was just a political manoeuvre organized to satisfy the World Bank and other donors. Baldivia (2007) points to the perverse idea from the aid architecture of using poverty indicators as criteria for distributing resources among municipalities, which generated an incentive for a municipality to show itself as increasingly poorer and also in many cases for pouring money where there are no real development opportunities. Antezana (2005) highlighted that the PRSP's policies were weak in terms of priorities and specificity of actions; it did not measure its intended impact on poverty; it lacked a mechanism for monitoring and social control at the municipal level; the growth projections were too optimistic and were not supported with pro-poor policies and adequate financing; foreign resources were insufficient due to lack of political will from the rich countries; the expected trickle down is not realistic when there is a high degree of inequality and there were no policies to reduce inequality; domestic and foreign markets were not considered seriously in order to transform greater production and productivity into greater income.

Evaluation of the PRSP by UDAPE (2003) proposed a strategic change in its vision by reducing poverty through wealth increase (as opposed to simply distributing resources), by supporting the productive activities of small enterprises which would generate labour opportunities and income as well as supporting a social protection network. During the second Sanchez de Lozada government many of the criticisms to the 2001 PRSP were improved in the "revised PRSP" developed in 2003. However this time it did not receive the support of the Consultative Group because there was no consultation with society as required by the National Dialogue Law. The main reason why the government did not develop a new National Dialogue was the perception of a potential significant politicization of the event beyond the limits of the National Dialogue Law. The next

government implemented the Productive National Dialogue (2004) which improved the process and outcomes substantially compared to the Dialogue 2000; however it did not come to be the desired development strategy due to the extreme social and political unrest of the time. Finally the PRSP agenda was discontinued by the current government and substituted by its NDP.