

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BOLIVIA

IDB COUNTRY STRATEGY (2016-2020)¹

FEBRUARY 2016

This document was prepared by Héctor Malarín (CAN/CBO), Rodolfo Stucchi (CAN/CBO), Javier Game (CAN/CBO), and Francesca Castellani (CAN/CAN). Carola Álvarez (CAN/CAN), Marta Ruiz-Arranz (CAN/CAN), and Leopoldo Avellán (CAN/CAN) contributed comments. The following specialists contributed analysis and information used as input in the preparation of this document: Arturo Alarcón (ENE/CBR), Zoraida Argüello (FMP/CVE), Fernando Balcázar (RND/CCO), Luis Buscarons (SPH/CBO), Rafael Capristán (TSP/CPE), Nelson Chacón (Consultor CAN/CBO), Martin Chrisney (VPP/VPP), Abel Cuba (FMP/CBO), Carolina Escudero (FMP/CBO), Omar Garzonio (WSA/CBO), Fernando de Olloqui (IFD/CMF), Alfred Grunwaldt (INE/CCS), Pablo Guerrero (INE/TSP), Julia Johannsen (SPH/CEC), Sergio Lacambra (INE/RND), Juan Manuel Leaño (TSP/CPN), Alejandro López-Lamia (FMM/CBO), Rocío Medina-Bolivar (CAN/CAN), Oscar Lora (FMM/CBO), Isabel Mejía (INT/TIU), Claudia Suaznábar (CTI/CBO), Verónica Tejerina (GDI/CBO), Hori Tsuneki (INE/RND), Manuel Urquidi (LMK/CBO), Aimee Verdisco (EDU/CBO), and Prem Jei Vidaurre (consultant, CCS/CBO).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

¹This strategy will remain in effect until 31 January 2020.

CONTENTS

I.	COUNTRY CONTEXT	1
II.	THE IDB IN BOLIVIA.....	3
III.	PRIORITY AREAS	7
IV.	PROJECTED LENDING SCENARIO	15
V.	STRATEGY IMPLEMENTATION.....	15
VI.	RISKS	18

ANNEXES

- I. Results Matrix
- II. Results Matrix for Country Systems
- III. Economic and Social Indicators
- IV. Lending Scenarios
- V. DEM
- VI. Recommendations from the Country Program Evaluation
- VII. Donor coordination

ELECTRONIC LINKS

- I. [Country Development Challenges \(CDC\)](#)
- II. [Fiduciary Technical Note](#)
- III. [Portfolio Report](#)
- IV. [Consultation with Civil Society](#)
- V. [Economic and Social Development Plan \(PDES\) 2016-2020](#)

ABBREVIATIONS

AECID	Agencia Española de Cooperación Internacional para el Desarrollo [Spanish Agency for International Development Cooperation]
ANPE	Apoyo Nacional a la Producción y Empleo [National Production and Employment Support]
CAF	Corporación Andina de Fomento [Andean Development Corporation]
CGE	Contraloría General del Estado [Office of the Comptroller General of the Nation]
CIDEM	Centro de Información y Desarrollo de la Mujer
DRM	Disaster risk management
ENDE	Empresa Nacional de Electricidad Bolivia [National Electricity Company of Bolivia]
ENDSA	Encuesta Nacional de Demografía y Salud
FSO	Fund for Special Operations
GDP	Gross domestic product
GRUS	Grupo de Socios para el Desarrollo de Bolivia [Bolivia Development Partners Group]
iGOPP	Index of Governance and Public Policy in Disaster Risk Management
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
INE	Instituto Nacional de Estadística [National Statistics Institute]
MEFP	Ministry of the Economy and Public Finance
MIF	Multilateral Investment Fund
MPD	Ministry of Development Planning
NCB	National competitive bidding
OC	Ordinary Capital
OMJ	Opportunities for the Majority Sector
PCR	Project completion report
PDES	Plan de Desarrollo Económico y Social [Economic and Social Development Plan]
PMR	Progress monitoring report
RICYT	Red de Indicadores de Ciencia y Tecnología – Iberoamericana e Interamericana [Ibero-American and Inter-American Network for Science and Technology Indicators]
SEP	Social Entrepreneurship Fund
SICOES	Sistema de Contrataciones del Estado [Government Procurement System]
SIGEP	Sistema de Gestión Pública [Public Management System]
SIN	Sistema Interconectado Nacional [National Interconnected System]
SME	Small and medium-sized enterprises
SNCP	Sistema Nacional de Contratación Pública [National Public Procurement System]
SPD	Office of Strategic Planning and Development Effectiveness
TFFP	Trade Finance Facilitation Program
WEF	World Economic Forum

EXECUTIVE SUMMARY

Economic and social context:

Between 2000 and 2014, the Bolivian economy posted average annual growth of 4.2%. This growth, driven by favorable external conditions and prudent macroeconomic policy, paved the way for real progress in reducing poverty and inequality. However, despite the gains made, poverty levels remain high—in 2014, 39.3% and 17.3% of the population were living in poverty and extreme poverty, respectively—and there are major discrepancies in access to public services between rural and urban areas. Meanwhile, productivity has not contributed significantly to economic growth, and the external outlook for the next several years is less favorable than in previous years. Accordingly, productivity is crucial to the medium- and long-term growth of the economy.

The IDB in Bolivia:

The Bank's country strategy with Bolivia for 2011-2015 focused on seven sectors: (i) transportation; (ii) water and sanitation; (iii) energy; (iv) early childhood development; (v) health; (vi) education; and (vii) strengthening of public governance. During the country strategy period, 26 sovereign guaranteed operations were approved for a total amount of US\$1.7551 billion. The private sector approved 31 loan operations totaling US\$90.3 million.

Priority areas:

The Bank's country strategy with Bolivia for 2016-2020 will contribute to the country's medium- and long-term development by supporting the policies advanced in the Economic and Social Development Plan (PDES) for 2016-2020 in three priority areas: (i) increasing productivity and diversification in the economy; (ii) closing social gaps; and (iii) improving the effectiveness of public governance. To contribute to increasing productivity, the Bank will support: (i) the delivery of quality public goods and services; (ii) the creation of an enabling environment for business formalization and growth; (iii) the promotion of innovation; and (iv) a reduction in vulnerability to climate change and natural disasters. To contribute to closing social gaps, the Bank will continue to support the government in its efforts to expand: (i) water and sanitation coverage; (ii) access and quality of social services, with an emphasis on health and social welfare with a gender and crosscultural perspective; and (iii) support for employment. Lastly, to contribute to improving the effectiveness of public governance, the Bank will support efforts to strengthen capacity to execute public policies at the subnational level.

**Lending
framework:**

The projected support for the period 2016-2020 is US\$3.167 billion in sovereign guaranteed approvals. The lending scenario, assuming no changes in the blend of resources of the Ordinary Capital (OC) and Fund for Special Operations (FSO), nor changes in the factors determining the allocation of FSO resources for eligible countries, calls for annual approvals of US\$633.4 million between 2016 and 2020. Average annual disbursements are expected to be US\$497.1 million.

Main risks:

The main risks to implementation of the strategy are: (i) macroeconomic, related to external shocks and their effect on public finances; (ii) institutional, related to the execution capacity of the local counterparts; and (iii) the business climate and its effect on investment.

I. COUNTRY CONTEXT

- 1.1 **In recent years, Bolivia has posted stronger economic growth than its historic average.** Between 2000 and 2014, the economy grew at an average annual rate of 4.2%, and 5% from 2009 onward, well above the 2.4% average between 1966 and 2000. As a result, real per capita GDP nearly doubled between 2000 and 2014, lifting Bolivia into the ranks of lower-middle-income countries. If this pace of growth is sustained, real GDP will double in the next 15 years.
- 1.2 **This growth has been driven by favorable external conditions and prudent macroeconomic policy.** The increase in public revenue—primarily due to exports of natural gas to Argentina and Brazil, the introduction of a direct tax on hydrocarbons, and the nationalizations in the hydrocarbons sector—has facilitated an increase in current and capital expenditure, while reversing the fiscal deficits of the past. The primary balance rose from an average of -3.5% of GDP in the first half of 2000 to an average of 2.3% of GDP between 2006 and 2014. Public investment climbed from 8.6% of GDP in the period 2000-2005 to 15.5% of GDP in the period 2011-2014, becoming the main engine of the country's growth.² Favorable terms of trade generated average surpluses of 6.8% of GDP in the trade balance and 3.4% of GDP in the current account between 2011 and 2014. This led to record high international reserves, which totaled 45% of GDP at the end of 2014. Inflation has remained under control. In the real sector, the strongest growth occurred in extractive sectors based on nonrenewable resources, which doubled their share of GDP between 2000 and 2013, from 6.6% to 14.1%.
- 1.3 **Economic growth, strong macroeconomic performance, and the impact of public policies have spurred an increase in household income—mainly among low-income sectors—reducing poverty and improving income distribution.** Poverty declined from 66% to 39.3%, and extreme poverty from 40% to 17.3%, between 2000 and 2014. The trend was more pronounced in the second half of the decade, with the poverty rate falling by 21 points between 2006 and 2014, compared with 7 points before 2006. Income distribution likewise improved, with the Gini coefficient at national level falling from 0.63 to 0.47 between 2000 and 2012.
- 1.4 **The population—mainly the low-income sectors—also gained better access to public services, which helped reduce multidimensional poverty.** Electricity coverage expanded from 64.4% of the population in 2001 to 85.7% in 2014, and water and sanitation coverage increased from 72.8% to 83.9% and 41.4% to 56.1%, respectively, between 2001 and 2014. The percentage of the population over 19 years of age with a secondary school education grew from 25.4% to 39.7%, and average years of schooling rose from 7.4 to 9, between 2001 and 2012. During the same period, the percentage of the population enrolled in the pension system doubled from 8.1% to 15.4%. This improvement, along with the income gains, helped lower multidimensional poverty from 56% to 39% of households between 2000 and 2012.

² The government of Bolivia states that this growth has been achieved as a result of public investment and other policies to spur domestic demand, primarily household consumption through redistributive policies (PDES 2016-2020).

- 1.5 **However, economic productivity has contributed very little to growth, and the country is dependent on nonrenewable resource sectors and external conditions.** Total factor productivity has been flat since 1960, failing to contribute in any significant way to the growth of the economy. Moreover, productivity in Bolivia is low, equivalent in 2014 to 11.8% of productivity in the United States. Owing to the level of export concentration—82.2% of the value of exports corresponded to hydrocarbons and minerals in 2014³—the international environment affects the balance of payments, public finances, and economic growth.
- 1.6 **In addition, the external outlook for the coming years is less favorable than in the past and could dampen future growth.** In the years ahead, international prices are expected to dip below the levels of the second half of the 2000s, presenting fiscal and balance-of-payment challenges. As a result of this change in the international outlook, the expectation is that public debt will rise and growth will cool.⁴ Growth is forecast at an annual rate of 3.5% over the next five years (IMF).
- 1.7 **To address these challenges, the country has prepared an Economic and Social Development Plan (PDES) for 2016-2020.**⁵ The plan seeks to lock in gains by pursuing the following main objectives: (i) eradication of extreme poverty; (ii) universalization of basic services, expanding coverage of drinking water, basic sanitation, residential natural gas, electric power, and telecommunications services; (iii) access to housing for a decent standard of living; (iv) implementation of universal health service and construction, expansion, and equipment for fourth-, third-, and second-level health care institutions; (v) universal access to education and strengthening of the education system; (vi) positioning of Bolivia as an energy and road integration hub; (vii) change of the productive matrix; (viii) technological, scientific, environmental, and food sovereignty; (ix) sovereignty and transparency in public governance; and (x) strengthening of macroeconomic stability and fiscal sustainability, deepening the model of equality and distribution of wealth. The public policies for achieving these objectives will be aligned with the Constitution approved in 2009 establishing a new relationship between the government and society and steering action by the State in support of the Vivir Bien [“Good Life”] agenda, making it the principal agent of economic and productive development.⁶

³ This includes manufacturing of minerals, which represented 15.2% in 2014.

⁴ Despite the less favorable outlook, the Bolivian government is projecting average growth above 5% in the 2016-2020 period (PDES 2016-2020).

⁵ See electronic link V.

⁶ In accordance with the constitutional mandate, the government (i) carries out integrated management of economic development and associated planning processes; (ii) has the ability to intervene anywhere along the production chain of the strategic sectors in the economy; and (iii) is tasked with reducing regional inequalities through production, distribution, and the fair redistribution of wealth and economic surpluses.

II. THE IDB IN BOLIVIA

- 2.1 The IDB is the second leading multilateral development bank in the country, after the CAF, accounting in 2015⁷ for 37.6% of its public sector borrowing with multilaterals, 27.3% of external public debt, and 13% of total public debt.
- 2.2 The **Bank's country strategy with Bolivia 2011-2015** identified seven priority areas: (i) transportation; (ii) water and sanitation; (iii) energy; (iv) early childhood development; (v) health; (vi) education; and (vii) strengthening of public governance. In addition, indigenous people and climate change were also envisaged as crosscutting issues. During the period 2011-2015, 26 sovereign guaranteed operations were approved for a total amount of US\$1.7551 billion. Of these, 5 were policy-based operations totaling US\$494.5 million, and 21 were investment projects totaling US\$1.2606 billion. During this period, disbursements totaling US\$1.291 billion were made, and net flows were positive at US\$1.001 billion. Of the total number of sovereign guaranteed operations, 74% were concentrated in infrastructure (40% in transportation, 10% in water and sanitation, 18% in natural resources, and 6% in energy), 11% corresponded to initiatives to close social gaps (early childhood development, health, and education), and 15% were designed to strengthen public governance. In addition, US\$27.9 million in technical cooperation operations were approved in the aforementioned sectors, and US\$72.7 million in investment grants were approved in the water and energy sectors. The private sector windows of the IDB Group approved 31 loan operations for US\$90.3 million, 17 of which corresponded to the IIC (US\$21.1 million), 3 to OMJ (US\$12.1 million), and 7 to SCF (US\$51 million). These focused on support for small and medium-sized enterprises (SMEs), agriculture, and trade finance. The Multilateral Investment Fund (MIF) approved 4 loan operations for US\$6.1 million, 1 investment for US\$1.8 million, and 24 nonreimbursable technical-cooperation operations for US\$14.8 million, in support of business development, health, social inclusion, financial inclusion, and energy.
- 2.3 **Active portfolio.** As of 31 December 2015, the sovereign guaranteed portfolio consists of 32 operations for a total approved amount of US\$1.8289 billion. The portfolio in execution is concentrated in infrastructure with approvals totaling US\$1.5269 billion (83.5%), social investment with US\$198 million (10.8%), and reform and modernization of the State with US\$103.9 million (5.7%). The portfolio in execution has an average age of 3.4 years, well below the average of 5.1 years in 2008.
- 2.4 The active portfolio of non-sovereign guaranteed loans comprises 18 operations—with exposure of US\$43 million—distributed as follows: (i) trade (27.1%); (ii) energy (22.1%); (iii) SME financing (23%); (iv) agriculture (13.3%); manufacturing and distribution (13.4%); and financial services (0.9%).
- 2.5 The technical cooperation operations in execution include: (i) 48 nonreimbursable technical cooperation operations for US\$20.9 million (50% disbursed); and (ii) 7 investment grants for US\$159.1 million (61% disbursed). This program of operations is financing activities in the areas of municipal development;

⁷ As of 30 August 2015.

preinvestment; water and sanitation; anticorruption; health; education; development of labor markets; road, air, and rail transportation; urban transportation; electricity generation and transmission; generation of alternative energies; rural development; tourism; community irrigation; climate change adaptation; gender and diversity; citizen security; and support for portfolio management. (iii) 24 MIF/SEP technical cooperation operations for US\$15.3 million (35% of disbursements). This program includes 4 operations for US\$1.27 million cofinanced with the Nordic Development Fund, the Italian Trust Fund for Regional Competitiveness, and the Partnership Trust Fund for Poverty Reduction in Latin America. The MIF/SEP portfolio contributes primarily on issues related to poverty reduction, supporting innovative business models for micro, small, and medium-sized enterprises (MSMEs) with priority given to rural areas and low-income groups.

- 2.6 **Results achieved.** Historically, the Bank has played a major role in closing infrastructure gaps in the country, working with central agencies to execute works. That emphasis continued in the period 2011-2015 with the Bank paying special attention to critical aspects related to quality of service. Thus, in the transportation sector, not only did the Bank intervene in 18% of the primary road network,⁸ paving, building, and rehabilitating 118 kilometers and maintaining 506 kilometers, it also provided support to strengthen the institutional framework at the central level necessary to manage the network,⁹ especially to improve cost recovery mechanisms (tolls) and weight control for proper maintenance. In the electricity sector, the Bank concentrated its support on enhancing the reliability of the energy supply, focusing on transmission and distribution. The Cochabamba–La Paz¹⁰ transmission line was completed for the northern area of the National Interconnected System (SIN), benefiting the users of 508,000 residential and commercial connections in La Paz, as well as other communities in the departments of La Paz and Beni. In addition, 1,513 kilometers of distribution lines and 198 kilometers of transmission lines were installed, benefiting 21,500 households.¹¹ In irrigation, the Bank continued to support the government's efforts to expand the land area with access to water, bringing irrigation systems to 9,060 hectares in 54 communities and helping 19,678 small-scale farmers raise their household income by 31% through access to new technologies. It should also be noted that in the period 2011-2015 the Bank added two important elements for environmental sustainability and climate change adaptation in its operations in the

⁸ Project completion reports (PCRs) and/or progress monitoring report (PMR) for the Northern Corridor Highway Program, La Paz–Caranavi Segment (loan BO0200); Northern Corridor Highway Improvement Program, Santa Bárbara–Rurrenabaque Section (loan BO-L1011); Performance-based Road Maintenance (loan BO-L1015); and Road Conservation in the East-West Corridor (loan BO-L1031).

⁹ Policy Reform Program in the Transportation Sector (loan BO-L1089).

¹⁰ PMR for the Cochabamba–La Paz Electric Power Transmission Line (loan BO-L1072) with scheduled date of last disbursement in April 2016.

¹¹ PMR for the Rural Electrification Program (loan BO-L1050), which is 74% disbursed and on track to meet all planned objectives by completion in May 2016, including 3,000 kilometers of distribution lines and 220 kilometers of transmission lines.

sector: (i) watershed approach; and (ii) promotion of mechanized irrigation.¹² In water and basic sanitation, the Bank focused on the implementation of integrated solutions in underserved areas, with satisfactory results.¹³ During the period 2011-2015, operations financed by the Bank benefited 366,471 people in these areas.¹⁴ In addition, 9,112 urban households gained access to improved water and sanitation through neighborhood improvement initiatives.¹⁵ Also during this period, the Bank opened a dialogue in the water and sanitation sector to ensure proper operation, maintenance, and management of existing infrastructure. Bank operations worked with subnational governments to build capacity in the sector. Infrastructure interventions supported by the Bank in 2011-2015 benefited from preinvestment operations to help streamline execution. Meanwhile, efforts were launched to rigorously measure the outcomes of loan operations, and impact evaluation plans were implemented for agriculture and water and sanitation projects.

- 2.7 In the social sector, the Bank's portfolio has grown steadily from 3% of the total portfolio in the period 2004-2007 to 8% in 2008-2010 and 14% in 2011-2015.¹⁶ The Bank's work in this area gave priority to expanding infrastructure coverage with a focus on the Altiplano region, where the need was greatest. A total of 18 health care facilities and maternity waiting houses were expanded and newly equipped in Oruro and Potosí, and 19 primary care centers were built in Chuquisaca. Additionally, to promote complete health checkups for pregnant women, cash transfers were made to participants in the Juana Azurduy voucher program,¹⁷ in the 74 prioritized municipios in Cochabamba, Potosí, and Oruro, which contributed to the increase in prenatal and postnatal checkups.¹⁸ In education, support was provided for the government's technical, technological, and productive education system. Whereas in the health sector the Bank played an important role in narrowing gaps, program performance in the education sector was hampered by execution delays.¹⁹ Also during the period 2001-2015, the Bank began to offer

¹² Importantly, actions to support irrigation were complemented during the period in question by improvements in key agricultural services, such as plant and animal health. With Bank support, Bolivia was certified as free from foot and mouth disease with vaccination (PCR for the Agricultural Health and Food Safety Program, loan BO-L1037).

¹³ Office of Evaluation and Oversight (OVE) (2015), "Country Program Evaluation, Bolivia, 2011-2015." Inter-American Development Bank, Washington, D.C.

¹⁴ PCR and/or PMR for the Small Community Water Program (loan BO-L1013), Water and Sanitation Program for Small Towns and Rural Communities in Bolivia (loan BO-G1002), and Water and Sewerage Program in Periurban Areas, Phase I (loan BO-L1034).

¹⁵ Neighborhood Improvement Multiphase Program, Phase I (loan BO-L1038).

¹⁶ OVE (2015) op. cit.

¹⁷ The program generates demand for mother and child preventive health services through conditional cash transfers for use of such services. Three types of vouchers are offered: (i) a prenatal checkup voucher; (ii) an institutional birth and prenatal checkup voucher; and (iii) a complete health checkup voucher.

¹⁸ UDAPE (2015): "Impact Evaluation of the Juan Azurduy Voucher Program." PCR and/or PMR for the Support for the Social Safety Net and Integral Community Development Program (loan BO-L1012), Multiphase Program in Support of the Plan to Eradicate Extreme Poverty (PEEP), Phase I (loan BO-L1032), Strengthening Integrated Health Networks in the Department of Potosí (loan BO-L1067), Improved Access to Hospital Services in Bolivia (loan BO-L1078), and Improved Access to Health Services in El Alto, Bolivia (loan BO-L1082).

¹⁹ OVE (2015) op. cit.

support to the employment sector with positive outcomes: 8,077 people received up to three months of on-the-job training; six months after receiving support, 61% had found employment and 40% had been hired at the company where they trained.²⁰

- 2.8 The private sector portfolio produced limited results.²¹ The bulk of financing for producers and firms was made under the Trade Finance Facilitation Program (TFFP) through the private sector window, which financed 108 trade transactions totaling US\$69.5 million.²² This program made financing available through large commercial banks but did not end up working with small commercial banks.²³ Projects under the Opportunities for the Majority Sector (OMJ) and the Inter-American Investment Corporation (IIC) provided financing to microenterprises and small businesses, but as yet there is no conclusive evidence of their effectiveness.²⁴
- 2.9 **Lessons learned.** The lessons learned during the period 2011-2015 in terms of improving the execution of projects and guaranteeing their effectiveness and sustainability point to the importance of: (i) reinforcing coordination between institutions with shared responsibilities, improving preinvestment capacity in infrastructure, and incorporating all budgetary and borrowing considerations in a timely manner to ensure compliance with national laws and regulations; (ii) strengthening the sequence between investment in physical infrastructure, its comprehensive management, and maintenance; (iii) building the planning, oversight, and evaluation capacities of the national and subnational entities involved in Bank operations; and (iv) identifying mechanisms early on for gathering information to monitor and subsequently evaluate the impact of projects. To support execution and strengthen dialogue with the country, the Bank deepened its decentralization initiative, and the number of personnel (specialists and analysts) doubled between 2008 and 2013, bringing about a substantial improvement in performance indicators, disbursement levels, and client satisfaction.²⁵ Another area identified as necessary for improving execution was the delivery of periodic training to executing agencies, given their staff turnover levels. Along those lines, the Bank has led the way in organizing training workshops for executing agencies to strengthen their management and planning capacity. These efforts supplement the direct support provided to update and/or create planning instruments at each executing agency. To guarantee the sustainability of the investments and the continuity of service delivery, some Bank operations (e.g., in the health sector) included maintenance packages of up to three years from the date the infrastructure enters use, in order to enable the subnational governments to estimate maintenance costs and make the necessary budgetary allowances. An effective instrument for promoting coordination between the beneficiary central and subnational governments of the Bank's projects was the support provided to negotiate and set up subsidiary contracts defining institutional responsibilities,

²⁰ Monitoring report for the Program to Support Employment (loan BO-L1051).

²¹ OVE (2015) op. cit.

²² IDB, Access2Markets, Trade Finance Facilitation Program.

²³ OVE (2015) op. cit.

²⁴ OVE (2015) op. cit.

²⁵ OVE (2015) op. cit.

particularly for works maintenance, and facilitating repayment of the debt. As a result of the workshops and close collaboration carried out between the sector divisions and the Office of Strategic Planning and Development Effectiveness (SPD) to measure the effectiveness of interventions, projects in key sectors (e.g., water and sanitation, early childhood development, irrigation, agricultural technology, and rural electrification) applied rigorous impact evaluation methodologies that are assessing the impact of the respective projects or will do so in the future.

- 2.10 **Country Program Evaluation: Bolivia (2011-2015).** The recommendations set out in the country program evaluation prepared by the Office of Evaluation and Oversight (OVE) are consistent with the lessons learned by the Bank. Specifically, OVE recommends as follows: (i) continue to support the implementation and consolidation of ongoing reform processes supported by the Bank during the evaluation period, while maintaining a technical and policy dialogue based on a long-term vision that allows these processes to move forward within government plans; (ii) seek ways of supporting the Bolivian government's proposals in building the capacities of subnational entities (necessary for progressive decentralization) and in the strengthening of country systems and capacities to coordinate across different levels of government; (iii) place greater emphasis on sustainability issues in investments financed through IDB loans, so all projects systematically incorporate mechanisms to ensure operation and maintenance of services; and (iv) seek spaces for supporting the private sector in areas that help to boost productivity, and in which the Bank has a comparative advantage through involvement of its private sector windows.

III. PRIORITY AREAS

- 3.1 The 2016-2020 country strategy will contribute to Bolivia's medium- and long-term development by supporting the policies advanced in the Economic and Social Development Plan (PDES) for 2016-2020 in **three priority areas**: (i) increasing productivity and diversification in the economy; (ii) closing social gaps; and (iii) improving public governance.
- 3.2 The actions outlined in this county strategy are consistent with the PDES 2016-2020, which has the following objectives: (i) eradication of extreme poverty; (ii) universalization of basic services expanding coverage of drinking water, basic sanitation, residential natural gas, electric power, and telecommunications services; (iii) access to housing for a decent standard of living; (iv) implementation of universal health service and construction, expansion, and equipment for fourth, third, and second level health care institutions; (v) universal access to education and strengthening of the education system; (vi) positioning of Bolivia as an energy and road integration hub; (vii) change of the productive matrix; (viii) technological, scientific, environmental, and food sovereignty; (ix) sovereignty and transparency in public governance; and (x) strengthening of macroeconomic stability and fiscal sustainability, deepening the model of equality and distribution of wealth.²⁶

²⁶ See electronic link V.

- 3.3 The selection of priority areas is based on: (i) analysis of Country Development Challenges (CDCs);²⁷ (ii) dialogue with the authorities and contribution to the PDES 2016-2020; (iii) the Update to the Institutional Strategy 2010-2020 for the IDB Group; (iv) the IIC's 2016-2019 Business Plan; (v) the contribution of the Bank's active portfolio and lessons learned in implementing the country strategy 2011-2015; and (vi) coordination with other donors.
- 3.4 The IDB Group will implement the 2016-2020 country strategy through the operations approved during the 2016-2020 country strategy period, as well as sovereign guaranteed (SG) and non-sovereign guaranteed (NSG) operations now in execution. The country's development will also be supported through policy dialogue based on knowledge products and on acquired know-how, including the impact evaluation of specific projects. Synergies between the different windows of the IDB Group will be sought in each priority area, so as to maximize the development impact of its work.
- A. Support for increasing productivity and diversification in the economy**
- 3.5 **The CDC analysis emphasizes that the economy's productivity is low, and productivity growth has been limited, so productivity has made little contribution to growth and diversification.** In 2014, the Bolivian economy's labor productivity stood at 11.8% of U.S. productivity.²⁸ Moreover, total factor productivity has not risen significantly since 1960, so in the last six years it has accounted for only 10% of economic growth. Low productivity has led to export concentration; hydrocarbons and minerals accounted for 82.2%²⁹ of the value of all exports.
- 3.6 **The factors affecting productivity** are: (i) the limited coverage and quality of public goods and services; (ii) the early stage of innovation efforts; (iii) the concentration of economic activity in informal microenterprises and small businesses; and (iv) vulnerability to climate change and natural disasters.
- 3.7 **Limited coverage and quality of public goods and services increases production costs and decreases productivity, mainly in rural areas.** As a landlocked country with diverse topography and a geographically dispersed population, Bolivia depends on the transportation sector to promote economic and social development, especially in rural areas. However, despite gains, Bolivia ranked 95th out of 144 countries in 2014 in terms of the condition of its roads.³⁰ As a result, logistics costs are high (Bolivia's logistics development index score is among the region's lowest at 2.48 out of 5).³¹ Business productivity and growth will also require a reliable electric power supply, minimizing outages that can raise

²⁷ The technical details, analysis, and proposals outlined in this country strategy, as well as a bibliography, can be found in the Country Development Challenges (Annex I).

²⁸ Conference Board (2015). The United States is typically used as comparator for ease of cross-border comparison.

²⁹ Includes manufacture of minerals, representing 15.2% in 2014.

³⁰ Global Competitiveness Report 2014-2015, World Economic Forum. The Government of Bolivia, with Bank support, is working to update the quality of roads indicator using the international roughness index. According to this indicator, 21% of roads were in good condition as of 2011.

³¹ Connecting to Compete 2014, World Bank.

production costs,³² and therefore investment in power generation and transmission. Agriculture sector productivity is also affected by the limited supply and quality of public goods:³³ the irrigation system covers 10% of hectares planted,³⁴ and electric power reaches 64.4% of households in rural areas.³⁵ Additionally, Bolivia has some of the lowest quality animal health services in Latin America³⁶ (see CDC paragraphs 3.16 to 3.17; 3.23 to 3.27; and 3.44 to 3.45).

- 3.8 **The early stage of innovation efforts restricts the productivity of productive units.**³⁷ The lack of innovation is a result of: (i) low levels of investment in research and development; total R&D investment is equivalent to 0.16% of GDP, compared to a regional average of 0.32%, with the private sector contributing only 6% of that investment, compared to an average of 21% for Latin America;³⁸ (ii) the complexity of the national innovation system; (iii) the lack of skilled human capital; the number of researchers per capita is one third of the region's average, and only 1% of them work in the productive sector, compared to averages of 16% for Latin America and 15% for Ecuador (see CDC paragraphs 3.20 to 3.22).
- 3.9 **The concentration of economic activity in informal microenterprises and small businesses restricts the economy's productivity.** Micro and small enterprises are generally less productive than big businesses;³⁹ in Bolivia, the difference is greater than in other Latin American countries. In Bolivia, small enterprises are only 30.1% as productive as large enterprises, compared to 61% in Ecuador. This lower productivity of productive units has a greater impact on the economy's overall productivity than in other countries due to the concentration of economic activity in small and informal enterprises. In 2011, 94% of all enterprises were microenterprises; 4.5% were small businesses; 1.4% were medium-sized; and 0.1% were large. Moreover, 85% of microenterprises are sole proprietorships, and 90% are informal. The productivity gap is also notable when comparing the earnings of sole proprietorships, which in their case is labor productivity. In 2013, more than 30% of these enterprises reported income equivalent to less than the minimum wage equivalent. This concentration of activity in micro and small enterprises and the prevalence of informality are the result of a business climate that is not favorable to business formalization and growth: in 2014, Bolivia ranked 157th out of 189 countries on ease of doing business. The main factors affecting the business climate are business startup costs, the complexity and costs associated with paying taxes, investment protections, access to finance, and nonwage labor costs. Business growth is also curtailed by the shortage of private and public support programs—financial ones included—seeking to correct the market failures affecting these companies. In the agriculture sector, uncertainty as

³² Escribano and Guasch (2012).

³³ López and Gallinato (2006) show that reallocation of 10% of public expenditures to public goods could generate impacts of up to 5% on agricultural GDP.

³⁴ Ministry of Environment and Water (2007), National Irrigation Development Plan for Living Well.

³⁵ Electricity Plan of the Plurinational State of Bolivia 2025.

³⁶ World Organisation for Animal Health.

³⁷ Pagés (ed.) (2010), "The Age of Productivity: Transforming Economies from the Bottom Up." IDB.

³⁸ World Bank.

³⁹ Ibarrarán, Maffioli, and Stucchi (2010): "Big questions about small firms," chapter 9 in C. Pagés (ed.), "The Age of Productivity: Transforming Economies from the Bottom Up." IDB.

to the law on land ownership raises an obstacle to transactions and investment in agricultural and forestry activities, since 32% of land, or 35 million hectares, has yet to be titled⁴⁰ (see CDC paragraphs 3.5 to 3.15, and 3.21).

- 3.10 **Productivity and growth are affected by natural disasters associated with climate change**, especially due to the loss of productive infrastructure. Bolivia has been one of the Andean countries most affected by natural disasters. Events during the El Niño phenomena of 1982-1983 and 1997-1998 caused estimated losses equivalent to 15.3% and 6.3% of GDP, and the La Niña phenomenon of 2008-2007 around 5.1% of GDP.⁴¹ More recently, the 2013-2014 floods affected more than 220,000 people and caused damage estimated at 1.1% of GDP. Additionally, Bolivia's physiographical features; intensive changes in land use, especially associated with rapid urban growth; the development of infrastructure in hazard-prone areas; and environmental degradation of watersheds are leaving the Bolivian population more and more physically exposed and vulnerable to disasters. Bolivia did not perform as well as other countries of the region on the risk management index (RMI)⁴² in 2013, scoring 26 out of 100, compared to a regional average of 35 (see CDC paragraph 3.28).
- 3.11 To support increased productivity and diversification in the economy, the country strategy will have **four strategic objectives**: (i) provision of quality public goods and services; (ii) promotion of innovation; (iii) creation of an enabling environment for business formalization and growth, mainly for micro and small enterprises, with an emphasis on simplifying the procedures for starting and running a business; and (iv) reduction of vulnerability to natural disasters and climate change.
- 3.12 **Provision of quality public goods and services.** To contribute to lowering the costs and raising the productivity of productive units, mainly in rural areas, the Bank will continue to support initiatives to increase the provision of transportation infrastructure with a focus on improving the secondary and tertiary road networks. It will also continue to build the planning and management capacity of national and subnational sector institutions.⁴³ In the energy sector, the Bank will emphasize support for renewable power generation, transmission lines, and distribution networks that contribute to greater reliability of the National Interconnected

⁴⁰ The government's efforts have prioritized the inclusion of women as key to the process, making them direct beneficiaries. As a result, access to land is equitable (National Agrarian Reform Institute (INRA)). Estimates are that an additional investment of US\$100 million will be required, to meet the objective of titling 100% of the land. This process also requires the institution-strengthening for the public institutions involved (i.e., update of the cadastre).

⁴¹ The most affected sectors are generally agriculture/livestock and transportation. The damage and losses from events spanning 1982-2010 generally break down as follows: 62% productive sector, 30% infrastructure, and 8% social sector. Of the losses in the productive sector, agriculture/livestock account for 75%; and in the infrastructure sector, transportation accounts for 97%.

⁴² The RMI, calculated by the IDB, measures risk management performance on four dimensions: risk identification, risk reduction, disaster management, and governance and financial protection.

⁴³ These areas will be supported by the following programs, now in execution: Northern Corridor Highway Improvement Program, Santa Bárbara–Rurrenabaque Section (loan BO-L1011), Performance-based Road Maintenance (loan BO-L1015), Road Conservation in the East-West Corridor (loan BO-L1031), and Transportation Sector Policy Reform Program (loan BO-L1089).

System. In distribution, it will support the Bolivian government initiatives⁴⁴ to increase electricity coverage in rural areas, especially for production-oriented uses.⁴⁵ The investments necessary in the energy sector provide opportunities for synergies among the IDB Group's windows. In the agriculture sector, in addition to transportation infrastructure and access to electricity, the Bank will support irrigation initiatives to increase crop yields, as well as initiatives that emphasize efficient public spending in agriculture aimed to improve key services for productive investment, like animal and plant health.

- 3.13 **Promotion of innovation.** The emphasis of activities to promote innovation will be (i) increasing R&D investment, both public and private; (ii) increasing private-sector participation in R&D; (iii) developing human capital; and (iv) strengthening the institutional structure. In the agriculture sector, initiatives will be supported for the adoption of agricultural technology and practices for higher yields and for climate change adaptation and mitigation.
- 3.14 **Creation of an enabling environment for business formalization and growth.** Emphasis will be put on support for policies to improve the investment climate, chiefly through the simplification of procedures for starting and running a business. Business growth will also be supported through technical assistance programs for micro, small, and medium-sized enterprises (MSMEs) and financial services for small-scale producers, with special emphasis on MSMEs run by women. In the agriculture sector, support will be provided for land titling initiatives.
- 3.15 **Climate change and natural disasters.** The Bank will continue supporting initiatives for reduced vulnerability to natural disasters and climate change adaptation, specifically: (i) strengthening the institutional structure for disaster risk management; (ii) pilot irrigation system programs for the country's various ecoregions; and (iii) building hydrogeological models to support the design of irrigation and drinking water projects. Additionally, knowledge generation and dissemination on the impacts of climate change will continue to be developed at the sector level.
- 3.16 These initiatives will be aligned with the challenges of *low productivity and innovation* and *limited economic integration* of the Update to the Institutional Strategy 2010-2020, the crosscutting issue of climate change, and with the objectives to (i) establish smart institutional frameworks; (ii) provide adequate knowledge and innovation ecosystems; (iii) provide urban planning and rural infrastructure; and (iv) insert firms into value chains. The initiatives will also be aligned with the crosscutting issues of gender equality and diversity and addressing the economic and social impacts of climate change adaptation and mitigation. The country strategy is also aligned with the strategic priorities of the IIC's 2016-2019 Business Plan, chiefly in the priority areas of lending for infrastructure projects, direct and indirect financing, and technical assistance to MSMEs. Additionally, the country strategy supports the priority business areas of support for innovation and promoting green growth contributing to sustainable

⁴⁴ The objective of the "Living with Dignity Electricity Program" (PEVD), which began execution in 2008, is to supply electric power to the entire population by 2025. The total investment needed to reach that goal is estimated at US\$2 billion.

⁴⁵ The Rural Electrification Program (loan BO-L1050), now in execution, will support this area.

development, as established in the Renewed Vision for IDB Group Activities with the Private Sector.

- 3.17 As noted, the Bank's support in all areas will seek synergies between SG and NSG operations. The definition and implementation of the relevant regulatory frameworks will create opportunities for the IDB Group's work with NSG operations. These operations will focus on financing for infrastructure works in the energy sector, mainly electric power and natural gas. Support for MSMEs will also continue through lending and technical assistance programs, with emphasis on monitoring and evaluation to ensure their effectiveness.

B. Support for closing social gaps

- 3.18 **Despite gains in recent years, poverty and extreme poverty remain high.** In 2014, 39.3% of the population lived in poverty, and 17.3% in extreme poverty. In rural areas, poverty and extreme poverty rates were 57.6% and 36.1%, respectively. The incidence of extreme poverty among households in indigenous communities and among the under-15 demographic is higher than average, at 33% and 26%, respectively. Multidimensional poverty in the countryside is four times higher than in the city, owing to differential access to basic services, health care, and the type of employment held by heads of household, with a higher incidence of poverty seen when the head of household is self-employed. There are also significant disparities between ethnic groups.⁴⁶
- 3.19 Based on estimates for 2014, **water coverage** rates in urban and rural areas are 92.1% and 66.3% of dwellings. Coverage rates for **basic sanitation** are 62.6% and 42.3% in urban and rural areas. In the countryside, coverage levels reflect the need for greater investment. In the city, coverage levels also reflect the process of urbanization (67% of the total population in 2012) and lack of urban planning, which has led to sprawl at very low density, mainly in the periurban areas of metropolitan regions. (see CDC paragraphs 3.38 to 3.43)
- 3.20 **Mother and child mortality rates are among the highest in the region.** In 2012, the child mortality rate was 33 deaths per 1,000 live births, most due to the effects of chronic malnutrition, which affects 18% of children under the age of five. The maternal mortality rate in 2013 of 215 deaths per 100,000 live births is associated with low coverage of institutional childbirth and health care, mainly in rural areas, where the rate is 35%.^{47 48} (see CDC paragraphs 3.53 to 3.60)
- 3.21 Despite the progress seen across a single generation in the number of years of schooling, the average dropout age in 2012 was 12, and it remains strongly correlated with the level of **education** of the parents, which is a constraint on social mobility. The dropout rate also splits along gender lines, with girls leaving

⁴⁶ Castellani and Zenteno (2015).

⁴⁷ WHO, 2013. The most recent official data on child mortality was 48.6 per 1,000 live births in 2011. The most recent official data on maternal mortality was 229 per 100,000 live births in 2003.

⁴⁸ These areas will be supported by the following operations, now in execution: Support for the Social Safety Net and Integral Community Development Program (loan BO-L1012); Multiphase Program in Support of the Plan to Eradicate Extreme Poverty (PEEP), Phase I (loan BO-L1032); Strengthening Integrated Health Networks in the Department of Potosí (loan BO-L1067); Improved Access to Hospital Services in Bolivia (loan BO-L1078); and Improved Access to Health Services in El Alto, Bolivia (loan BO-L1082).

- school at an earlier age than boys owing to discrepancies in opportunity costs. The steepest hurdles are seen at the secondary level, where enrollment was at 68.3% in 2012,⁴⁹ in line with regional averages. Measuring the quality of education is a challenge given the dearth of recent data, though Bolivia has made a commitment to participate in future rounds of the LLECE regional testing. Sector performance is compromised by lack of investment, particularly in infrastructure. Bolivia trails the region in educational spending per student (US\$2,079 in 2012, PPP) (see CDC paragraphs 3.47-3.52).
- 3.22 Bolivia has one of the region's highest rates of **violence against women**. In 2003, 53.3% of women between the ages of 15 and 49 reported having experienced physical or sexual violence at the hands of an intimate partner, and in 2008, 25.5% reported the abuse as having occurred in the 12 months preceding the survey. The femicide rate, at 6 homicides for every 100,000 women, is among the highest in the region⁵⁰ (see CDC paragraph 3.90).
- 3.23 The high **level of informality**—in 2013, 81% of workers were not enrolled in social security—can be attributed to the insufficient creation of formal jobs, high nonwage labor costs, and skills gaps that work against workforce integration. As a result, wages remain low, frustrating poverty reduction efforts. In addition, it undermines the sustainability of the pension system, jeopardizing ongoing efforts to reduce poverty among older adults. In the labor market, there are significant wage gaps to the detriment of women and indigenous and Afro-descendant people⁵¹ (see CDC paragraphs 3.61 to 3.68).
- 3.24 To support closing social gaps and reducing extreme poverty, this country strategy sets **three strategic objectives**: (i) expand water and sanitation coverage, principally in periurban and rural areas; (ii) improve access and quality of social services with emphasis on health and social protection and a gender and crosscultural perspective; and (iii) support formal employment, principally for women and indigenous and Afro-descendant people.
- 3.25 **Expand water and sanitation coverage.** To close gaps in water and sanitation coverage, the Bank will focus its support on infrastructure investments, mainly in periurban and rural areas, and on the reforms already under way to ensure their sustainability. To guarantee the effectiveness and sustainability of the investments needed in the sector,⁵² the Bank will provide support to strengthen the execution capacity of national and subnational public institutions with responsibilities in the sector. It will also put emphasis on strategic and urban planning initiatives to address urbanization in an orderly manner.⁵³

⁴⁹ Additional official figures indicate that 88.7% of young people aged 12 to 17 received school assistance.

⁵⁰ The Small Arms Survey, Graduate Institute of International and Development Studies, Geneva. www.smallarmssurvey.org.

⁵¹ On average, after factoring in age, education, occupation, and hours worked, women and indigenous works earn US\$104 and US\$63 less per month, respectively (Chacón and Stucchi, 2015).

⁵² According to estimates by the Bolivian government, an investment of US\$2.3 billion will be needed between 2016 and 2020 in order to meet the coverage targets proposed in the PDES (Water: 100% and 90% in urban and rural areas; Sanitary sewerage: 80% and 70% in urban and rural areas).

⁵³ These areas will be supported by the following programs, now in execution: Small Community Water Program (BO-L1013), Water and Sanitation Program for Small Towns and Rural Communities in Bolivia (BO-G1002), and Water and Sewerage Program in Periurban Areas, Phase I (BO-L1034).

- 3.26 **Improve access and quality of social services.** Bank support will provide continuity for the gains made under the previous strategy, mainly through interventions to improve mother and child prevention and treatment services and to expand coverage and improve the quality of education, primarily at the secondary level, with a gender perspective.⁵⁴ The Bank's support will emphasize implementation of the Comprehensive Law to Guarantee a Violence-free Life for Women (Law 348 of 2013), which establishes an integrated system of services for women in situations of violence.
- 3.27 **Support formal employment.**⁵⁵ The Bank will support the workforce integration of diverse segments of the population, taking a gender and crosscultural perspective and emphasizing efforts toward formalization and expanding access to the social security system.
- 3.28 These initiatives will be aligned with the social exclusion and inequality challenge described in the Update to the Institutional Strategy 2010-2020 and the following objectives: (i) eradicate extreme poverty; and (ii) provide inclusive infrastructure and infrastructure services. They will further be aligned with the crosscutting issue of gender equality and diversity. The country strategy is also aligned with the priority business area for the provision of goods and services, as well as income generating opportunities and mobility for vulnerable populations, as established in the Renewed Vision for IDB Group Activities with the Private Sector.
- 3.29 Bank support will pursue synergies between the public and private sector windows. The support of the private sector window will be crucial in the preparation of job placement models for indigenous youth and women and in the establishment of health microinsurance policies.

C. Support for improving the effectiveness of public governance

- 3.30 The role of the State in Bolivia's development model requires efficient institutions. However, the World Economic Forum (WEF) index of the capacity of institutions assigns Bolivia a score of 3.5 of 7, ranking it 90th among 144 countries in 2014. This is related to the professionalization of the civil service and the low rate of use of information and communication technologies. In the 2013 Civil Service Development Index, Bolivia scored 21 points of a maximum of 100 points, compared with an average score of 38 in Latin America. The country placed 103rd in the United Nations "e-Government Survey 2014," which measures ICT use by governments, with a score of 0.4562, below the regional average (0.5074). This performance is also affected by the execution capacity of local governments. Subnational governments, mainly municipal governments, are authorized to provide most public services but have limited budgetary execution capacity. In 2013, the execution rate was 61% in large municipios and 53% in small municipios. In addition, the high percentage of resources from transfers—80% in

⁵⁴ Interventions in other areas of the education sector will be contingent on substantial progress with implementation of the program Support for Productive Community Secondary Education (BO-L1071).

⁵⁵ On the demand side, the creation of formal jobs is closely tied to productivity gains at firms; the intervention in that area is described in the objective to increase productivity. This section emphasizes creation of formal jobs on the supply side and worker skills.

- 2013—weakens the efficiency of local tax collection and expenditure.⁵⁶ (see CDC paragraphs 3.79-3.85)
- 3.31 Bank intervention will emphasize support for the Bolivian government's priority efforts to strengthen the execution capacity of public policies at the subnational level, with an emphasis on revenue and expenditure management.
- 3.32 These initiatives will be aligned with the crosscutting issue of institutional capacity and the rule of law described in the Update to the Institutional Strategy 2010-2020.

IV. PROJECTED LENDING SCENARIO

- 4.1 **During the country strategy period, Bolivia will have large financing requirements and will have access to the markets.** The level of debt with respect to GDP for the period 2016-2020 is projected to rise from 29.9% in 2014 to 47% in 2020. Based on the macroeconomic results obtained since 2006, the rating agency Standard & Poor's (S&P) upgraded Bolivia's sovereign risk rating from BB- to BB in 2014, and Fitch Ratings upgraded it from BB- with a positive outlook to BB with a stable outlook in 2015. Moody's kept its rating at Ba3 with a stable outlook. In 2012, Bolivia regained access to financial markets, and the latest improvements in its risk rating will help it gain access to other sources of financing.
- 4.2 **The Bank anticipates higher approval and disbursement levels than those seen in recent years.** Assuming the FSO allocation and the blend of OC and FSO resources remains constant at an 85/15 ratio over the span of the country strategy, and that institutional and portfolio performance stay the course, annual approvals of US\$633.4 million are expected, with annual disbursements rising from US\$418.5 million in 2016 to US\$557.8 million in 2020. These disbursement levels will be contingent on the execution capacity of local counterparts. Total financial support for the period 2016-2020 is estimated at approximately US\$3.167 billion in sovereign guaranteed loan approvals. This amount is contingent on the biannual allocations of concessional resources and, by extension, on the sustainability of debt, economic performance, institutional performance, the performance of the Bank's portfolio in Bolivia. An alternative scenario involving a higher level of concessional resources, with an OC/FSO 80/20 blend starting in 2017, reflects total financial support estimated at US\$2.5338 billion in sovereign guaranteed loan approvals.

V. STRATEGY IMPLEMENTATION

- 5.1 **Country systems.** In recent years, Bolivia has consolidated its public financial management. In the framework of the support envisaged in the Bank's 2011-2015 country strategy with Bolivia for the strengthening and use of country systems, the following results have been achieved: (i) development of a module in the SIGEP Public Management System for keeping accounting records and control of externally financed projects; (ii) strengthening of the regulatory framework for internal control, aligned with international standards; and (iii) strengthening of the technical capacity of the internal audit units through the development of software for control of the audits performed by the units. During this strategy period, the

⁵⁶ Serrudo (2008) and Corbacho et al. (2013).

Bank will continue working with the government to strengthen country systems with a view to expanding the use of accounting and reporting and internal audit systems in Bank operations. To that end, support will be provided to modernize the Office of the Comptroller General of the Nation (CGE) and to the efforts of the Ministry of the Economy and Public Finance to implement the government's new integrated financial management system. In addition, the Bank will deliver support to: (i) strengthen leadership of the National Public Procurement System (SNCP), make regulatory changes, and advance towards an electronic government procurement system; (ii) implement and consolidate the SIGEP accounting module for projects to allow for full use of the country accounting system, subject to validation; (iii) strengthen the technical and technological capacities of the CGE, to make it more effective; and (iv) streamline processes.

- 5.2 In recent years, improvements have been made to the SNCP in such areas as the confidentiality of procurement documents; the clarity of bidding procedures; the publication and distribution of information through available electronic media; and the introduction of rules of remediation criteria and clarification of methods for the selection and use of guarantees in bidding documents. In addition, a Master Registry of Providers (RUPE) has been implemented. However, the following challenges are pending: (i) provide the lead agency with the independence and authority necessary for performing procurement supervision and monitoring functions; (ii) enable the planning and execution of contracts for multiyear periods; (iii) develop and implement an electronic transactions system for the management of procurements; (iv) develop a consolidated procurement manual to standardize the interpretation and application of rules; (v) establish formal skills development programs for procurement professionals and define technical job descriptions and salary schedules consistent with level of responsibility; and (vi) improve the provisions for facilitating the participation of micro, small, and medium-sized enterprises (MSMEs) in public procurement.

Summary Table of Use of Country Systems

Use of country systems	Baseline 2015	Estimated use 2020	Actions planned during the country strategy period
Budget	100%	100%	Monitoring of SIGEP.
Cash management	100%	100%	
Accounting and reporting	0%	70% ^(*)	Support for implementation of the SIGEP accounting module, to allow for record-keeping and generation of reports in different currencies and formats.
Internal audit	0%	40%	Support to strengthen the technological capacity of the CGE, so that it can develop a technology platform that allows the internal audit units to carry out performance audits. Support for the CGE to establish technical rules and regulations that incorporate international guidelines and practices adapted to the Bolivian context.
External control	0%	0%	Support to strengthen external audits by establishing and consolidating CGE leadership over the technical exchange process between government entities and independent audit firms.

Use of country systems	Baseline 2015	Estimated use 2020	Actions planned during the country strategy period
			Support for the CGE to establish technical rules and regulations that incorporate international guidelines and practices.
Information system	100%	100%	Ongoing monitoring of the effectiveness of SICOES as a platform for publishing bidding notices and awards.
Shopping ⁵⁷	0%	60%	Ongoing coordination with the Bolivian government to meet the corresponding target for these indicators, based on the signature and entry into effect of the agreement between the MPD, the MEFP, and the Bank for partial use of the country system for public procurements. Once the agreement has been signed, the following actions will be taken: 1. Adapt the standard bidding documents to reflect the conditions of the agreement; and 2. Hold training workshops for users of the agreement (executing agency and Bank staff).
Individual consulting services ⁵⁸	0%	60%	
Partial NCB	0%	0%	Ongoing dialogue with the government to support strengthening actions.
Advanced NCB	0%	0%	

(*) Executing agencies that have their own systems are not included.

- 5.3 Non-sovereign guaranteed financing.** The government is shaping the regulatory framework to encourage private investment in various sectors of the economy, which may create opportunities for support from the IDB Group. The Bank will monitor the initiatives and step up the policy dialogue in those sectors. It will also emphasize the dissemination of mechanisms for non-sovereign guaranteed financing and promote complementarity between sovereign guaranteed and non-sovereign guaranteed operations.
- 5.4 Donor coordination.** The Bank actively participates in the Bolivia Development Partners Group (GRUS), of which it is a founding member. GRUS brings together the main bilateral and multilateral cooperation agencies working in Bolivia and is the leading mechanism for coordination and dialogue between the government and international donors. During the period 2011-2015, the Bank participated in working groups in the target areas established in the country strategy and agreed to give updates on its actions to the other members working in those same areas. The main areas were water and sanitation, energy, natural disasters, and health. For example, on natural disaster issues, the IDB coordinated the approval of policy-based loans with the World Bank,⁵⁹ and the World Bank supported enactment of Law 602 on Disaster Risk Management while the IDB supported implementation. The IDB also worked in coordination with the World Bank on the neighborhood improvement program,⁶⁰ and coordinated with the Spanish Agency for International Development Cooperation (AECID) on the small community water

⁵⁷ Equivalent to the ANPE modality of the SNCP for contracts under the threshold amounts established by the Bank for shopping: Works up to US\$250,000, and goods up to US\$50,000.

⁵⁸ Equivalent to the ANPE modality of the SNCP for all individual consulting contracts.

⁵⁹ BO-L1104: Disaster Risk Management Program I.

⁶⁰ BO-L1038: Neighborhood Improvement Multiphase Program, Phase I.

program.⁶¹ During the period covered by the next country strategy, the IDB will continue using the GRUS as a coordination mechanism with entities like the World Bank, the CAF, the European Union, AECID, and other bilateral agencies planning actions in the same areas as, or areas complementary to, the ones in which the Bank works.

VI. RISKS

- 6.1 **Business cycle.** The external outlook over the next several years will be less favorable than in the past. Prices are trending downward for the main export products. Given the country's dependence on revenue from hydrocarbons, if commodity prices remain low, it could lead to an economic slowdown and fiscal and external challenges. Furthermore, there are vulnerabilities related to natural disasters that could hinder growth and spark inflation. To minimize these risks, the Bank's efforts are intended to improve productivity levels in the economy and strengthen the capacity for disaster risk management. To monitor these risks and support the policy dialogue, the Bank will monitor macroeconomic conditions. The Bank's involvement in the donors group (GRUS) offers an additional tool for the coordinated supervision of some of these risks.
- 6.2 **Institutional challenges.** Bolivia has sought to strengthen its public investment system. It has recently amended its regulatory framework to consolidate the criteria it uses to prepare investment projects. This represents a renewed challenge of working alongside the national and subnational authorities to strengthen their capacity to execute Bank-financed operations. Although there are agencies with a proven track record in project management, the incorporation of new actors, a larger portfolio, and the emphasis on infrastructure maintenance and management issues will require additional efforts to achieve the expected outcomes of Bank programs. The active incorporation of subnational governments involves complex interagency negotiation and buy-in processes that complicate and delay the execution of operations. To minimize these challenges, the Bank will support efforts to strengthen the capacity of national and subnational entities to coordinate across different levels of government. In line with practice in recent years, biannual programming will ensure that resources are available when they are needed to prepare operations. The Bank will continue to monitor these challenges through its support for the executing agencies and portfolio management efforts.
- 6.3 **Business climate.** The government is redefining the regulatory framework in several sectors of the economy to improve the business climate and encourage investment. This is an important improvement for the country strategy priority area related to increasing productivity, since without a suitable business climate the opportunities for investment, as well as support from the IDB Group to promote investment, could be limited. Accordingly, to build support for legislative changes and mitigate any effect they might have on the programming and performance of the portfolio, the Bank will monitor the initiatives and deepen the policy dialogue in the corresponding sectors.

⁶¹ BO-L1013: Small Community Water Program.

RESULTS MATRIX

Government (strategies) priorities	Strategic areas	Bank's strategic objectives	Expected results	Indicator	Baseline	Source
Change of the productive matrix Technological, scientific, environmental, and food sovereignty Positioning of Bolivia as an energy and road integration hub	Increasing productivity and diversification in the economy	Improve the provision of quality public goods and services	Increase agricultural productivity	Labor productivity of the agricultural sector	2012: 2,947 bolivianos (1990) per worker	INE
			Improve transportation infrastructure to facilitate logistics	Percentage of roads in good condition (IRI \leq 3)	2011: 21%	Bolivian Highways Administration (ABC)
			Increase the percentage of power generated from renewable energies in the National Interconnected System (SIN) and isolated systems.	Percentage of power generated from renewable sources in the SIN and isolated systems.	2014: 30%	National Electricity Company (ENDE)
			Increase the total kilometers of SIN transmission lines	Kilometers in the SIN	2014: 5,190 km	ENDE
			Increase the rural electrification coverage	Percentage of rural dwellings with electric power	2014: 66%	ENDE
		Create an enabling environment for business formalization and growth	Improve the business climate	Ease of doing business index	2015: 47.5	World Bank: Doing Business
			Increase formality in the economy	Percentage of wage earners contributing to the social security system	2013:19%	IDB – Labor Markets and Social Security Information System
		Promote innovation	Increase total investment (public and private) in R&D	Total investment in R&D (% of GDP)	2014: 0.16%	RICYT
			Increase labor productivity	Labor productivity per employed person in 2014 U.S. dollars	2015: US\$14,067	Conference Board

Government (strategies) priorities	Strategic areas	Bank's strategic objectives	Expected results	Indicator	Baseline	Source
		Reduce vulnerability to natural disasters and climate change	Improve natural disaster risk management capacity	Index of Governance and Public Policy in Disaster Risk Management (b) (iGOPP)	2015: 35%	IDB
Eradication of extreme poverty Universalization of basic services expanding coverage of drinking water, basic sanitation, residential natural gas, electric power, and telecommunications services Access to housing for a decent standard of living Implementation of universal health service and construction, expansion, and equipment for fourth-, third-, and second- level health care institutions Universal access to education and strengthening of the education system	Closing social gaps	Reduce extreme poverty with an emphasis on rural areas, indigenous groups, and the under-15 age group	Extreme poverty	Extreme poverty rate (c)	2013: 18.8%	National Statistics Institute (INE), Household survey
			Extreme poverty, rural population	Extreme poverty rate, rural population (c)	2013: 39%	INE, Household survey
			Extreme poverty, indigenous and Afro-descendant groups	Extreme poverty rate, indigenous and Afro-descendant groups (c)	2013: 33%	INE, Household survey
			Extreme poverty, under-15 age group	Extreme poverty rate, under-15 age group (c)	2013: 26%	INE, Household survey
		Expand water and sanitation coverage, principally in rural areas	Increase water coverage in rural areas	Water coverage in rural areas (% of households)	2014: 66.3%	Ministry of the Environment and Water
			Increase basic sanitation coverage in rural areas	Sanitation coverage in rural areas (% of households)	2014: 42.3%	Ministry of the Environment and Water
		Improve access and quality of social services	Increase net coverage (e) of secondary education	Net coverage (e) of secondary education	2012: 68.3%	INE
			Reduce child mortality	Child mortality rate per 1,000 live births	2012: 33	Pan American Health Organization (PAHO)
			Reduce maternal mortality	Maternal mortality rate per 100,000 live births	2013: 215	INE, National Demographic and Health Survey (ENDSA)
			Reduce violence against women	Number of femicides (d)	2014: 114	CIDEM

Government (strategies) priorities	Strategic areas	Bank's strategic objectives	Expected results	Indicator	Baseline	Source
		Increase workforce integration of women and indigenous people	Increase the rate of participation by women in paid work	Rate of participation by women in paid work	2013: 22.1	INE: Household survey
			Increase the rate of participation by indigenous and Afro-descendant people in paid work	Rate of participation by indigenous and Afro-descendant people in paid work	2013: 21.8	INE: Household survey
Sovereignty and transparency in public governance	Improving the effectiveness of public governance	Improve the effectiveness of public governance	Improve the effectiveness of public governance	Government efficiency index (b)	2014: 3.5	WEF

Notes: (a) Productivity in the agriculture sector is measured as agricultural GDP at 1990 prices divided by the number of people employed in the sector. (b) The Index of Governance and Public Policy in Disaster Risk Management (iGOPP) was developed to evaluate a country's governance with respect to disaster risk management (DRM) through the formal existence of a number of legal, institutional, and budgetary conditions that are considered key to implementation of a country's disaster risk management processes. To measure this indicator, a predetermined number of requirements must be fulfilled and verified, yielding a score in the six dimensions of the indicator: (i) general framework of governance for DRM (GF); (ii) risk identification and knowledge (RI); (iii) risk reduction (RR); (iv) disaster preparedness (DP); (v) post-disaster recovery planning (RC); and (vi) financial protection (FP). The percentage corresponds to the number of indicators that have been fulfilled for all risk management processes. (c) The indicator measures the percentage (in relation to the group under consideration) of people living below the national extreme poverty line. (d) Law 348 of 2013 incorporates the crime of femicide into the Criminal Code, defining it as the murder of a woman for being a woman; (e) Net coverage is the ratio between the students enrolled in the educational level appropriate for their age and the total population in the age group appropriate for that level.

RESULTS MATRIX FOR COUNTRY SYSTEMS

Strategic objectives	Expected results during country strategy period	Indicator	Baseline	Indicative targets	Frequency
Strengthening of country systems	External control and internal audit systems are strengthened.	Percentage of internal audit units using the CGE technology platform to perform their work	Baseline: 0%	Target: 50%	At the end of the country strategy period
		Development of an information system that provides a database for technical application of risk-based audit procedures	Baseline: No system	Target: Information system for conducting risk-based audits developed and implemented in technical control units for planning interventions	At the end of the country strategy period
		Management system for external audits of public entities performed by independent audit firms	Baseline: No system	Target: Management system developed	At the end of the country strategy period
	National Public Procurement System (SNCP) is strengthened.	Status (%) of development of the e-procurement system	Baseline: 0%	Target: Status at 30% of the modules comprising the system	At the end of the country strategy period
		Pilot framework agreement designed and tested in hard copy	Baseline: Not in use	Target: Pilot framework agreement designed in hard copy	At the end of the country strategy period
		Certification program for public procurement agents developed	Baseline: No program	Target: Certification program developed	At the end of the country strategy period
Use of country systems	Increase use of the following country systems in the sovereign guaranteed loan portfolio 1. Accounting and reporting 2. Internal audits	Percentage of the sovereign guaranteed portfolio using the national accounting and reporting system	Baseline: 0%	Target: 70%	Annual
		Percentage of the sovereign guaranteed portfolio using the national internal audit system	Baseline: 0%	Target: 40%	Annual

Strategic objectives	Expected results during country strategy period	Indicator	Baseline	Indicative targets	Frequency
	Increase use of the shopping subsystem in the sovereign guaranteed loan portfolio	Percentage of the sovereign guaranteed portfolio using the shopping subsystem	Baseline: 0%	Target: 60%	At the end of the country strategy period
	Increase use of the individual consulting services subsystem in the sovereign guaranteed loan portfolio	Percentage of the sovereign guaranteed portfolio using the individual consulting services subsystem	Baseline: 0%	Target: 60%	At the end of the country strategy period

ECONOMIC AND SOCIAL INDICATORS

	2010	2011	2012	2013	2014
Real sector					
Annual real GDP growth (%) ⁽ⁱ⁾	4.1	5.2	5.1	6.8	5.5
Per capita GDP (US\$) ⁽ⁱ⁾	1,972	2,367	2,636	2,939	3,116
Annual real GFCF growth (%) ⁽ⁱ⁾	7.5	23.7	2.5	11.7	9.9
Annual household consumption growth (%) ⁽ⁱ⁾	4.0%	5.2	4.6	5.9	5.4
Unemployment rate (%) (annual average) ⁽ⁱ⁾	-	3.8	3.2	4.0	3.5
Public sector					
NFPS revenue (% of GDP) ⁽ⁱⁱⁱ⁾	44.7	45.5	47.0	49.1	51.4
of which, revenue from hydrocarbons (%) ⁽ⁱⁱⁱ⁾	46.5	44.0	47.7	48.1	47.1
NFPS expenditure (% of GDP) ⁽ⁱⁱⁱ⁾	43.0	44.7	45.3	48.4	54.8
NFPS overall balance (% of GDP) ⁽ⁱⁱⁱ⁾	1.7	0.8	1.7	0.6	-3.4
NFPS primary balance (% of GDP) ⁽ⁱⁱⁱ⁾	3.3	2.0	2.8	1.3	-2.5
Public debt (% of GDP) ^{(iii) (iv)}	37.8	33.6	33.0	32.5	29.9
Monetary and exchange rate					
Annual inflation (%) (end of period) ⁽ⁱ⁾	7.2	6.9	4.5	6.5	5.2
Nominal exchange rate (Bs./US\$ - period average) ⁽ⁱⁱⁱ⁾	7.07	6.99	6.96	6.96	6.96
Real exchange rate (period average, 2003 = 100) ⁽ⁱⁱⁱ⁾	93.8	89.0	85.6	80.1	75.0
Financial					
Credit to the private sector (% of GDP) ⁽ⁱⁱⁱ⁾	28.3	28.8	30.1	32.3	36.5
Financial system assets (% of GDP) ⁽ⁱⁱⁱ⁾	44.4	44.9	48.7	51.5	55.3
External sector					
Trade balance (% of GDP) ⁽ⁱⁱⁱ⁾	4.1	1.8	9.8	7.5	5.2
Current account (% of GDP) ⁽ⁱⁱⁱ⁾	3.9	0.3	7.2	3.4	0.2
FDI (% of GDP) ⁽ⁱⁱⁱ⁾	3.4	3.6	3.9	5.7	1.9
Social					
Poverty (%) ^(v)	-	45.0	43.4	39.0	39.3
Extreme poverty (%) ^(v)	-	20.9	21.6	18.8	17.3
Gini ^(v)	-	0.46	0.47	-	-

Sources: (i) National Statistics Institute (INE); (ii) World Economic Outlook, April 2015 – IMF; (iii) Central Bank of Bolivia (BCB); (iv) Ministry of Economy and Public Finance (MEFP); (v) Economic and Social Policy Analysis Unit (UDAPE).

Note: 2014 estimated.

SOVEREIGN DEBT LENDING SCENARIO 2016-2020, US\$ MILLIONS

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2016-2020
Scenario A												
Approvals ⁽¹⁾	201.0	252.0	315.0	379.0	335.0	475.1	633.4	633.4	633.4	633.4	633.4	3,167.0
Disbursements ⁽²⁾	158.6	176.9	205.7	271.2	304.0	338.0	418.5	468.0	506.0	535.3	557.8	2,485.6
Repayments	56.0	61.8	44.2	24.1	22.1	21.5	26.0	33.5	43.6	58.0	70.2	231.4
Net flow of loans	102.6	115.1	161.5	247.1	281.9	316.5	392.3	434.6	462.2	471.3	487.6	2,254.3
Subscriptions	2.4	2.9	23.7	10.4	14.5	1.5	1.2	0.6	0.2	0.1	-	2.1
Net flow of capital	100.2	112.2	137.8	236.7	267.4	315.0	391.3	433.8	462.3	477.2	487.6	2,252.2
Interest and fees	15.0	15.9	17.7	21.6	29.3	32.6	37.1	39.7	41.3	40.6	39.2	197.9
Net flow of cash	85.2	96.3	120.1	215.1	238.1	282.4	354.2	394.1	421.0	436.6	448.4	2,054.3
IDB debt ^{(3) (5)}	629.4	764.2	936.0	1,179.4	1,458.4	1,774.9	2,167.4	2,601.9	3,064.3	3,541.6	4,029.2	-
IDB debt/GDP (%) ⁽⁴⁾	3.2	3.2	3.4	3.8	4.4	4.9	5.5	6.1	6.7	7.1	7.4	-
IDB debt/public debt (%) ⁽⁴⁾	8.3	9.1	10.3	11.8	13.1	13.0	13.2	13.9	14.5	15.1	15.6	-
IDB debt/multilateral external debt (%) ⁽⁴⁾	27.5	29.2	30.9	34.1	37.4	37.6	45.5	50.2	54.5	58.0	61.3	-
Scenario B												
Approvals ⁽¹⁾	201.0	252.0	315.0	379.0	335.0	475.1	633.4	475.1	475.1	475.1	475.1	2,533.8
Disbursements ⁽²⁾	158.6	176.9	205.7	271.2	304.0	338.0	418.5	420.5	433.0	442.7	450.2	2,164.9
Repayments	56.0	61.8	44.2	24.1	22.1	21.5	26.0	33.5	43.6	58.0	70.2	231.4
Net flow of loans	102.6	115.1	161.5	247.1	281.9	316.5	392.5	387.0	389.4	384.7	379.9	1,933.5
Subscriptions	2.4	2.9	23.7	10.4	14.5	1.5	1.2	0.6	0.2	0.1	0.0	2.1
Net flow of capital	100.2	112.2	137.8	236.7	267.4	315.0	391.3	386.3	389.3	384.6	379.9	1,931.4
Interest and fees	15.0	15.9	17.7	21.6	29.3	32.6	37.1	39.7	41.3	40.6	39.2	197.9
Net flow of cash	85.2	96.3	120.1	215.1	238.1	282.4	354.2	346.6	348.0	344.0	340.7	1,733.5
IDB debt ^{(3) (5)}	629.4	764.2	936.0	1,179.4	1,458.4	1,774.9	2,167.4	2,554.4	2,943.8	3,328.5	3,708.4	-
IDB debt/GDP (%) ⁽⁴⁾	3.2	3.2	3.4	3.8	4.4	4.9	5.5	6.0	6.4	6.7	6.8	-

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2016-2020
IDB debt/public debt (%) ⁽⁴⁾	8.3	9.1	10.3	11.8	13.1	13.0	13.2	13.6	13.9	14.2	14.3	-
IDB debt/multilateral external debt (%)	27.5	29.2	30.9	34.1	37.4	37.6	45.5	49.3	52.3	54.6	56.5	-

Notes: (1) The approval figures corresponding to 2015 and 2016 have been determined using the FSO allocation approved in 2014. In scenario A, the approval levels for 2017, 2018, and 2019 assume that the FSO allocation and the FSO/OC blend remain unchanged from 2016. In scenario B, the approval levels for these years assume a return to the 2015 allocation. (2) For the disbursement projections, it is assumed that policy-based loans (PBLs) are fully disbursed in the year of approval and investment loans maintain a constant disbursed-to-undisbursed ratio of 23%. (3) The IDB debt figures were obtained from the IDB Finance Department; beginning with 2015, the figures are obtained by taking the debt from the previous year and adding disbursements and subtracting repayments. (4) The GDP and public debt projections are from the IMF (WEO, October 2015). Public debt includes domestic and external debt. (5) The debt sustainability analysis presented in the IAMC approved in May 2015 shows that the increase in debt levels has a low risk of unsustainability.

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX	
In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.	
The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."	

COUNTRY STRATEGY:

STRATEGIC ALIGNMENT

Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.

EFFECTIVENESS

This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems.

Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the priority area's specific constraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges	100%
- That provide policy related recommendations	100%
III. Results matrix	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The indicators are outcome indicators and are SMART	96%
- The indicators have baselines	100%
IV. Vertical logic	Yes/No
- The CS has vertical logic	Yes

Diagnostic assessment. As part of the country diagnostic, a Country Development Challenges (CDC) document was presented for Bolivia, containing comprehensive information based on empirical evidence. The diagnostic document identifies three priority areas of intervention: (i) support for increasing productivity in the economy; (ii) support for closing social gaps; and (iii) support for improving the effectiveness of public governance.

- The diagnostic clearly identifies and quantifies, based on empirical evidence, 100% of the constraints and challenges in the priority areas.
- The diagnostic clearly identifies and quantifies, based on empirical evidence, the factors and causes contributing to the specific constraints for 100% of the priority areas.
- The diagnostic provides policy-related recommendations for Bank action related to the causes identified for 100% of the priority areas.

Results matrix. The results matrix section corresponding to the new strategy identifies nine strategic objectives for Bank intervention and 23 indicators to measure progress.B26

- 100% of the strategic objectives clearly identify the strategic objectives.
- 100% of the objectives set in the Bank's country strategy are directly related to the main constraints identified in the diagnostic.
- 96% of the indicators are SMART.
- 100% of the indicators have baselines.

Country systems. In the area of financial management, the Bank is making use of country systems for budgeting and cash management. During the 2016-2020 period, partial use of the accounting and reporting and internal audit systems will begin. In the area of procurement, the Bank makes use of the country's public procurement system and partial use of the ANPE system and expects to increase use during the 2016-2020 country strategy period.

Vertical logic. The country strategy is clear and has vertical logic.

RISKS. The main risks to implementation of the strategy are: (i) macroeconomic, related to external shocks and their effect on public finances; (ii) institutional, related to the execution capacity of the local counterparts; and (iii) the business climate and its effect on investment. The country strategy identifies mitigation measures for the first two and monitoring measures for all risks.

MANAGEMENT'S RESPONSE TO THE COUNTRY PROGRAM EVALUATION: BOLIVIA 2011-2015

Recommendation	Management's response
<p>Recommendation 1</p> <p>Continue to support the implementation and consolidation of ongoing reform processes supported by the Bank during the evaluation period, while maintaining a technical and policy dialogue based on a long-term vision that allows these processes to move forward within government plans. In the sectors where the IDB has established a position through investment portfolio and where policy-based projects have also been approved (water and transportation), it is important to support consolidation of the reforms that have begun. In the sectors where the Bank has gained space through recent technical cooperation efforts and investment loans (health, energy), it would be equally important to deepen the policy dialogue regarding structural aspects of these sectors' operations. In the next program of reforms, within a tighter fiscal context, the efficiency of decentralized public expenditure could also become increasingly important.</p>	<p>Agree</p> <p>During the 2016-2020 strategy period, the Bank will continue to support the implementation and consolidation of the reform processes, with emphasis on the areas in which the Bank has been working systematically. In this regard, for purposes of future programming exercises, the Bank will deepen its policy dialogue with the government in those sectors where reforms are required to ensure that planned investments are more effective and sustainable. In particular, the Bank will support the government's efforts to ensure an improvement in the quality of public expenditure at the subnational level.</p>
<p>Recommendation 2</p> <p>Seek ways of supporting the Bolivian government's proposals in building the capacities of subnational entities (necessary for progressive decentralization) and in the strengthening of country systems and capacities to coordinate across different levels of government. To this end, the IDB may consider establishing a formal agreement with the central government that allows it to progressively improve country systems and to work at the subnational level, reducing transaction costs and problems of multilevel coordination. Moreover, in the context of negotiations for a fiscal agreement, the Bank may also expand the focus, incorporating the challenges of limited subnational management capacities and ensuring consolidated fiscal sustainability.</p>	<p>Agree</p> <p>During the 2016-2020 strategy period, the Bank will continue to support the country in the strengthening of subnational entities. The Bank will ensure that in relevant cases, the operations include the tools necessary to build the planning, supervision, and evaluation capacities of the subnational entities involved in their execution.</p> <p>This support may be expanded to incorporate aspects related to the efficient management of public spending for these entities, in light of the advances in the negotiations for a fiscal agreement and the dialogue with the country.</p> <p>With respect to country systems, the Bank will continue its current support for key entities, such as the Ministry for the Economy and Public Finances and the Office of the Comptroller General, to consolidate the use of more effective instruments in the areas of public financial management systems, the national procurement system, and governmental control systems. The possibility of extending support in these areas to subnational entities will also be considered.</p>
<p>Recommendation 3</p> <p>Place greater emphasis on sustainability issues in investments financed through IDB loans, so all projects systematically incorporate mechanisms to ensure operation and maintenance of services. To this end, the IDB could build on the experience of equipment maintenance arrangements developed in the health sector, or develop other agreements</p>	<p>Agree</p> <p>The Bank will continue to ensure that investment projects include adequate mechanisms to ensure the long-term sustainability of the financed investments.</p> <p>Not only will equipment maintenance arrangements similar to those mentioned be promoted, but cost</p>

Recommendation	Management's response
for transferring infrastructure works with mechanisms to ensure their sustainability.	recovery mechanisms will also be sought, particularly in infrastructure projects, to cover the operation and maintenance of the services.
<p>Recommendation 4</p> <p>Seek spaces for supporting the private sector in areas that help to boost productivity, and in which the Bank has a comparative advantage through involvement of its private sector windows. To this end, new approaches, products, and combinations of financial and nonfinancial instruments offered as a result of consolidation of the Bank's private sector windows could be incorporated fully into the new strategy.</p>	<p>Agree</p> <p>The Bank considers the role of the private sector to be fundamental for improving productivity in Bolivia and sustaining the current levels of growth over the long term. Along that line, through the private sector windows, the Bank will continue to emphasize the creation of a favorable environment for formalization and business growth, particularly among micro, small, and medium-sized enterprises, and develop the delivery of public goods that promote productive investment, the sustainable use of natural resources, and the diversification of the economy. To this end, both the financial instruments and the know-how offered by these windows will be used.</p>

DONOR COORDINATION

The Bank maintains a high level of coordination with other multilateral and bilateral agencies. It actively participates in the Bolivia Development Partners Group (GRUS), of which it is a founding member. The main purpose of the GRUS, established in 2006, is to support, in the framework of the Paris Agreement, the Bolivian government's leadership in the coordination and harmonization of international cooperation, in order to make it more effective and consistent. The GRUS has assembled working groups in the following sectors: water and sanitation, education, gender, disaster risk management, infrastructure, macroeconomics and public finance, environment and climate change, sector roundtable on integrated development, sustainable urban mobility, autonomous process and public management, health, the productive sector, and agricultural development. During the period 2011-2015, the Bank participated in working groups in the target areas established in the country strategy and agreed to give updates on its actions to the other members working in those same areas. The main areas were water and sanitation, energy, natural disasters, and health.

There are examples of joint efforts in various sectors. In the area of natural disaster risk management, the IDB coordinated the approval of policy-based loans with the World Bank,¹ and the World Bank supported enactment of Law 602 on Disaster Risk Management while the IDB supported implementation. The IDB also worked in coordination with the World Bank on the neighborhood improvement program,² and coordinated with the Spanish Agency for International Development Cooperation (AECID) on the small community water program.³ During the period covered by the next country strategy, the IDB will continue using the GRUS as a coordination mechanism with entities like the World Bank, the CAF, the European Union, AECID, and other bilateral agencies planning actions in the same areas as, or areas complementary to, the ones in which the Bank works.

¹ BO-L1104: Disaster Risk Management Program I.

² BO-L1038: Neighborhood Improvement Multiphase Program, Phase I.

³ BO-L1013: Small Community Water Program.

SECTOR MATRIX OF BILATERAL AND MULTILATERAL DONORS (GRUS AND NON-GRUS)

Sector	IDB	World Bank	CAF	OAS	United Nations	European Union	IMF	FONP LATA	Germany	Belgium	Brazil	Canada	Colombia	Korea	Costa Rica	Denmark	Spain	France	Japan	Sweden	Switzerland	Norway	Italy	United States	China
Transportation	X	X	X					X										X	X						X
Energy	X	X	X		X										X			X	X			X			X
Water and sanitation	X	X	X		X	X			X	X							X	X	X						
Rural development, agriculture, and food security	X	X				X			X			X		X		X			X	X					
Environment	X	X			X					X	X			X		X	X			X	X			X	
Natural disaster management	X	X			X									X				X	X				X		
Education	X				X	X								X		X			X				X		
Health	X				X					X				X				X	X						
Early childhood development	X																								
Poverty reduction and social protection	X	X	X		X	X						X					X		X						
Labor market	X	X																							
Gender and diversity	X	X			X							X												X	
Innovation and research	X	X																		X					
Fiduciary	X	X																							
Urban development, tourism, and cultural heritage	X	X	X																				X		
Financial and capital markets		X	X																						
MSMEs	X		X																						
Institutional strengthening of the State and public management	X		X	X	X	X					X	X	X				X								
Justice and citizen security	X			X	X																				
Human rights					X	X														X	X				
Democratic governance				X	X	X			X								X			X	X				
Fiscal sustainability and debt reduction							X											X					X		