

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
AND THE INTER-AMERICAN INVESTMENT CORPORATION

BOLIVIA
IDB GROUP COUNTRY STRATEGY
(2022-2025)

FEBRUARY 2022

This document was prepared under the supervision of Julia Johannsen (CAN/CBO) by Liliana Castilleja-Vargas (CAN/CBO), based on inputs provided by Alejandro Melandri (formerly CAN/CBO), Hector Rabade (CAN/CBO), Sergio Ballón (INE/ENE), Luis Buscarons (SCL/SPH), Cristina Mecerreyes (INE/WSA), Thierry Delaunay (INE/WSA), Luis Miranda (CSD/RND), Juan de Dios Mattos (CSD/RND), Adela Moreda (CSD/RND), Rafael Poveda (INE/TSP), Roberto Camblor (CSD/HUD); Rodrigo Criaes (CSC/HUD), Verónica Tejerina (SCL/GDI), Manuel Urquidi (SCL/LMK), Alejandro Rasteletti (IFD/FMM), Nicolas Dassen (IFD/ICS), Guillermo Lagarda (IFD/ICS); Antonio Garcia (IFD/CFM), Diego Herrera (IFD/CMF), Jaime Fernandez-Baca (CSD/CCS); Willy Bendix (VPC/FMP), Miguel Orellana (VPC/FMP); Patricia Toriz (VPC/FMP), Shirley Foronda (VPC/FMP), Maria Cecilia Acevedo (DSP/SPK), Adriana Valencia (DSP/SPK), Canelas Alejandro (INO/SPK), Olga Lucía de Narvaez (DSP/CCO), and Fernando Catalano (DIS/CBO). Additional collaborators include Luis F. Laura (CAN/CBO), Patricia Nalvarte (CAN/CAN), Jorge Cossio (CAN/CBO), Evelyn Molina (IFD/ICS), Adriana Inchauste (CAN/CBO), Ariel Goytia (CAN/CBO), Carlos Aramayo (CAN/CBO), Cristian Valverde (CAN/CBO), Gina Penaranda (CAN/CBO), Guissel Coronel (CAN/CBO), Jimena Sanchez (CAN/CBO), Joyce Elliot (CAN/CBO), Luis Santalla (CAN/CBO), Jose Molinedo (CAN/CBO), and Stephanie Alvarado (SCL/SPH).

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.

CONTENTS

EXECUTIVE SUMMARY

I.	SOCIAL AND ECONOMIC CONTEXT	1
II.	THE IDB GROUP IN BOLIVIA	4
III.	PRIORITY AREAS.....	12
	Economic reconstruction and boosting productivity	14
	Diversification of production	17
	Inclusive and sustainable social development	20
IV.	PROJECTED LENDING FRAMEWORK.....	26
V.	STRATEGY IMPLEMENTATION	27
VI.	RISKS	29
	ANNEX I: RESULTS MATRIX AND COUNTRY SYSTEM MATRIX	40
	ANNEX II: ECONOMIC AND SOCIAL INDICATORS.....	47
	ANNEX III: INDICATIVE LENDING SCENARIO 2022-2025.....	48
	ANNEX IV: DEVELOPMENT EFFECTIVENESS MATRIX (SUMMARY).....	49
	ANNEX V: MANAGEMENT'S RESPONSE TO THE RECOMMENDATIONS IN THE COUNTRY PROGRAM EVALUATION (CPE) 2016-2021	50

APPENDICES

Proposed resolution

LINKS

1. [Country Development Challenges \(CDC\)](#)
2. [Fiduciary Technical Note](#)
3. [Portfolio Report](#)
4. [Consultation with Civil Society](#)
5. [Donor Coordination](#)
6. [Economic and Social Development Plan \(PDES\) 2021-2025](#)

ABBREVIATIONS

AIDS	Acquired immunodeficiency syndrome
BCB	Central Bank of Bolivia
CDC	Country Development Challenges
CPE	Country Program Evaluation
ECLAC	Economic Commission for Latin America and the Caribbean
HIV	Human immunodeficiency virus
ICT	Information and communication technologies
INE	National Statistics Institute
ITU	International Telecommunication Union
LAC	Latin America and the Caribbean
MEFP	Ministry of Economy and Public Finance
MESCP	Modelo Económico Social Comunitario Productivo [Social and community-based productive economic model]
MSMEs	Micro, small, and medium-sized enterprises
NDC	Nationally Determined Contribution
NSG	Non-sovereign guaranteed
OECD	Organisation for Economic Co-operation and Development
OVE	IDB Office of Evaluation and Oversight
PBL	Policy-based loan
PDES	Plan de Desarrollo Económico y Social [Economic and Social Development Plan]
SIAP	Sistema Integrado de Administración de Proyectos [Integrated Project Administration System]
SIGEP	Sistema de Gestión Pública [Public Management System]
SIMS	IDB's Labor Markets and Social Security Information System
TFP	Total factor productivity
VAT	Value added tax
WEF	World Economic Forum
WEO	World Economic Outlook

EXECUTIVE SUMMARY

<p>Country context</p>	<p>Prior to the shock of the 2020 pandemic, the Bolivian economy was slowing down. In 2020, the economy contracted by 8.8%, businesses and jobs were destroyed, poverty increased, and the distribution of wealth became more unequal. In this scenario, various challenges were exacerbated and Bolivia's vulnerabilities were laid bare to a convergence of shocks. In 2021, and for the period of implementation of the Bank's country strategy (2022-2025), the economy is expected to converge to the prepandemic average growth levels of close to 4%. In this context, Bolivia has opportunity space to increase productivity, increase production diversification, and continue to make progress on inclusive and sustainable development.</p>
<p>The IDB Group in Bolivia</p>	<p>The previous IDB Group country strategy (2016-2020), whose transition period was extended to 2021, resulting in the 2016-2021 country strategy, identified three priority areas: (i) increasing productivity and diversification in the economy; (ii) closing social gaps; and (iii) improving public governance. The issues of gender and diversity and climate change and environmental sustainability were mainstreamed in these three pillars, while the issues of institutional capacity and rule of law were addressed as a priority area and were also addressed in the other two pillars. Under this country strategy period (up to October 2021), 17 sovereign-guaranteed loan operations were approved along with 70 technical cooperation operations for a total of US\$3,092,300,000, while IDB Invest approved 10 operations totaling US\$142.76 million, and IDB Lab approved nine operations for US\$10.7 million.</p>
<p>Priority areas for 2021-2025</p>	<p>The new country strategy for 2022-2025 period sets out the following three priority areas: (i) economic reconstruction and boosting productivity; (ii) diversification of production; and (iii) inclusive and sustainable social development. Support for issues associated with gender equity and diversity inclusion; climate change and environmental sustainability; and institutional capacity and rule of law will be addressed in a crosscutting manner under all pillars and areas of action.</p>
<p>Lending framework</p>	<p>The IDB estimates approvals of at least US\$1.648 billion in the 2022-2025 period. Together with the expected net annual flows of loans and disbursements, with this level of approvals, the IDB Group would maintain its position as the leading multilateral source of financing, representing around 40% and 30% of the country's multilateral financing and external debt, respectively.</p>

Main risks	The main risks for implementation of the strategy are: (i) the macrofiscal situation that the country will have to properly manage in order to achieve an optimal implementation of its economic policies; (ii) the development of the COVID-19 pandemic; (iii) the risk of a complex political context and potential social conflicts; (iv) execution issues associated with the lack of resources, the high turnover of executing agencies, management capacity, and the lack of technical personnel; and (v) the country's vulnerability to climate change and the relatively high levels of poverty in rural and indigenous areas.
-------------------	--

I. SOCIAL AND ECONOMIC CONTEXT

- 1.1 **In the last two decades, Bolivia achieved a remarkable social and economic transformation.** Starting in the first decade of the century, Bolivia embarked on an unprecedented growth and social development path, posting an average annual growth rate of more than 4% between 2000 and 2019 and raising its income per capita from less than US\$1,000 to more than US\$3,500 over this period.¹ This buoyancy was primarily driven by an external bonanza, adoption of favorable economic and social policies, and domestic demand. Between 2000 and 2019, moderate poverty declined from 66.4% to 37.2%, while extreme poverty fell from 45.2% to 12.9%.² This progress was primarily the result of poverty reduction policies with a focus on social protection, using conditional and unconditional cash transfers,³ the policy of minimum-wage increases and affordable housing loans. This reduction in poverty was accompanied by an increase in income equality. Between 2000 and 2019, income distribution inequality, as measured through the Gini coefficient, declined from 0.63 to 0.42.⁴
- 1.2 **The economic model and macroeconomic trends in recent years boosted the country's transformation.** In 2006, Bolivia adopted a productive community-based social and economic model (MESCP). This is a development model in which the State takes on the role of main driver of economic growth and social progress, assuming responsibility for economic planning and management of public enterprises, fostering public investment in production and strategic sectors. The model is based on economic growth through the development of natural resources, State use of the financial surplus generated by the strategic sectors, and redistribution of this surplus among the income and job creating sectors and the vulnerable population segments, with a view to reducing inequality and poverty. This model led to a substantial expansion in public investment associated with the rise in capital imports, creating significant room for pursuing greater efficiency in terms of investment allocation and returns.
- 1.3 **The shock of the COVID-19 pandemic hit the country at a vulnerable time.** Beginning in 2013, a divergence became apparent between the trend in GDP growth and the execution of public investment, which had been the main domestic engine of economic growth, as the extraction sectors faced the challenge of lower external demand. Since the Bolivian economy is relatively open to international trade, with an economic cycle that is closely correlated with the price of oil, the economy is exposed to shocks arising from its concentration in commodities, namely hydrocarbons (natural gas), minerals (zinc, gold, and tin), and basic foods (soybeans and grains). In addition, in 2019, in the context of the political and social conflict that followed the presidential elections of 20 October 2019 and affected the

¹ Source: National Statistics Institute (INE).

² Source: INE.

³ The current cash transfer programs targeting vulnerable groups are: Renta Dignidad, Bono Juancito Pinto, and Bono Juana Azurduy.

⁴ This progress, in addition to being enabled by a rise in the employment income of the least skilled population segment, was also bolstered by social protection policies that provided for conditional and unconditional cash transfers. Based on data from INE household surveys between 2000 and 2017, the reduction in inequality can also be explained by a decline in the returns to higher education across all social strata.

macroeconomic forecasts for the country during that administration, the economy grew merely by 2.2% that year.

- 1.4 **In 2020, the economy contracted by 8.8%, creating an adverse impact on the country's social and economic indicators.** Between March and December 2020, 5,015 businesses (92% of which were micro and small enterprises) closed down, representing 1.5% of the universe of 336,823 businesses.⁵ Unemployment rose in tandem with the drop in economic and productive activity, reaching a peak of 10.8% in the third quarter of 2020, the unemployment rate being higher for women (11.3%) than for men (10.4%). In addition, extreme poverty increased from 12.9% in 2019 to 13.7% in 2020, and moderate poverty expanded from 37.2% to 39.0% over the same period, respectively adding 9,600 and 210,600 individuals to those categories. Inequality, as measured by the Gini coefficient, increased from 0.42 to 0.45 over that period.⁶ Furthermore, that year, public finance management and the effects of the pandemic led to a fiscal deficit of 12.7% of GDP and a current account deficit of 0.5% of GDP.⁷
- 1.5 **The pandemic also exacerbated several preexisting structural challenges.** Specifically, the pandemic laid bare Bolivia's vulnerability to a convergence of external shocks, such as an abrupt fall in commodity prices and volumes, and domestic shocks, such as the recent drop in supply and demand resulting from pandemic response measures such as lockdowns. As of this date, 80% of the country's export basket is concentrated in unsophisticated primary products. In addition, given the high correlation of the economic cycle with the price of oil,⁸ a decline in oil prices means a deterioration in Bolivia's terms of trade, creating a negative impact on the trade balance and on fiscal revenue.⁹
- 1.6 **In the context of the pandemic regard, gender and diversity challenges have been accentuated.** Despite the important strides made in recent years, there continues to be significant gender inequality, coupled with high rates of violence against women and ethnolinguistic gaps that adversely affect the indigenous and Afro-descendant population. These challenges have been accentuated with the pandemic. For example, access to sexual and reproductive health services and pre- and post-natal care was reduced as health care services were overwhelmed by COVID-19 patients, thus disproportionately affecting women. Moreover, as in-person classes were discontinued, the responsibility for providing essential care for children and other family members in the context of the pandemic fell to women. As was the case in other countries, the percentage of women who lost their jobs was greater than that of men, and gender-based violence worsened during the lockdown periods. In turn, the overstretching of the health system as a result of the pandemic disproportionately affected the indigenous populations in rural and geographically remote areas, while in the education area, given their limitations on

⁵ Source: Fundempresa.

⁶ Source: INE, 2021.

⁷ Memoria de la Economía Boliviana 2020 (Ministry of Economy and Public Finance).

⁸ Ugarte and Bolívar, 2015.

⁹ The International Monetary Fund (IMF) estimates that Bolivia's terms of trade will deteriorate by 12.7% by year-end 2020 (IMF, 2020a).

connectivity and internet access, it was difficult to provide continuity with remote teaching and learning.

- 1.7 **Bolivia's vulnerability to climate change is coupled with the aftereffects of the COVID-19 crisis.** Historically, Bolivia has been exposed to disasters caused by various natural phenomena.¹⁰ In the Index for Risk Management for Latin America and the Caribbean (2018), Bolivia is assigned a risk score of 6.1 out of 10, implying a high risk of exposure to disasters and humanitarian crises.¹¹ The available estimates for Bolivia show the heavy toll of natural disasters in terms of increasing poverty, as 42,387 additional people per year join the ranks of the poor.¹² In the medium term, the effects of climate change and natural disasters also affect the capacity for resilience of the most vulnerable households, which employ adaptation strategies such as selling assets, their home, or cattle in response to adverse shocks.
- 1.8 **In the areas of institutional capacity and rule of law, there is still room for improving the effectiveness of the State and reducing transaction costs.** Bolivia has a regulatory framework that promotes transparency and integrity in public governance, access to information, and control of corruption. However, it is recommended that the country adopt up-to-date arrangements in line with international standards in governance, accountability, public procurement, and digital government. Bolivia is ranked below the average for Latin America and the Caribbean (LAC) in indicators of State effectiveness, governance, control of corruption, and rule of law.¹³ Factors contributing to this situation include the low use of information and communication technologies (ICT) in national and subnational public governance, both in the operational areas and in direct contact with the citizenry, and the room available to produce and use data and statistics more systematically for informed decision-making on effective and equitable public policies.
- 1.9 **The current circumstances provide a unique opportunity to continue to transform the country through increased productivity and diversification of production and through greater development with social inclusion and environmental sustainability.** When the health emergency arising from the pandemic is overcome, efforts will need to be focused on rebuilding the economy in the long term as well as on boosting the capacity to respond to future economic and climate shocks. This will require public policies designed to foster productivity, i.e., efficient allocation and use of production inputs, diversification of production, with emphasis on a process of decarbonization and industrialization based on higher value-added, more sophisticated, and more environmentally friendly products, and greater welfare and inclusion of the population. The objective will be to achieve economic, social, and institutional advances that can sustain a solid, inclusive, and climate-change resilient growth.

¹⁰ García and Naranjo, 2016.

¹¹ United Nations et al., 2018.

¹² Hallegatte et al., 2017.

¹³ World Bank, Worldwide Governance Indicators 2020 (Washington, D.C., World Bank, 2020). <http://info.worldbank.org/governance/wgi/Home/Reports>.

- 1.10 **During the period of implementation of the 2022-2025 country strategy, the economy is expected to converge to its prepandemic growth levels.** In 2021, the economy began to recover in line with progress in vaccination and the normalization of productive activities. The projections available as of this date point to a growth rate of about 5% at year-end. The fiscal deficit is expected to narrow from 12.2% of GDP in 2020 to 9.7% of GDP in 2021.¹⁴ For the 2022-2025 period, the Bolivian economy is projected to expand at an average rate of 3.7%, which is close to the 4% growth rate posted in the last two decades (2000-2019). This projected growth will be underpinned by economic reconstruction, collective immunization, and improved terms of trade, with limited and relatively low inflation levels of 3.3% on average for the period. The fiscal deficit is expected to narrow during this period as revenue recovers and the extraordinary expenditures associated with the pandemic are tapered. Thus, the fiscal deficit is projected to average 6.6% of GDP for the period. The projected current account deficit for the period will be on the order of 3.4% of GDP, and the level of reserves is expected to average 7.2% of GDP.¹⁵

II. THE IDB GROUP IN BOLIVIA

A. Implementation of the country strategy for 2016-2021

- 2.1 **The IDB Group's country strategy with Bolivia for 2016-2021.** Based on a diagnostic assessment of the 2015 Country Development Challenges (CDC) and a dialogue with the Government of Bolivia, the country strategy for 2016-2020 (subsequently 2016-2021, following an extension of its transition period to January 2022) identified three priority areas: (i) increasing productivity and diversification in the economy; (ii) closing social gaps; and (iii) improving public governance. These three strategic pillars mainstreamed issues of gender and diversity and of climate change and environmental sustainability. Issues of institutional capacity and rule of law were addressed at the strategic pillar level under the third priority pillar, although they were also dealt with in the other two pillars. The 2016-2021 country strategy proposed initiatives for social services with an emphasis on health and social welfare with a gender and intercultural perspective. It also proposed support for formal employment as well as initiatives for reduced vulnerability to natural disasters and climate change adaptation, with a focus on strengthening the institutional structure for disaster risk management and on irrigation and drinking water systems. In terms of institutional capacity and rule of law, which was addressed at the strategic pillar level, the country strategy focused on strengthening the execution capacity of public policies at the subnational level, with an emphasis on revenue and expenditure management. The main areas of dialogue with the government and international cooperation agencies notably included water and sanitation, energy, natural disasters, and health.

¹⁴ Art. IV, IMF, June.

¹⁵ Based on IMF, WEO (October 2021) data.

- 2.2 **During that period, the IDB Group maintained its status as Bolivia's main multilateral partner.** As of June 2021, Bolivia's IDB debt accounts for 44.7% of the country's total debt to multilateral agencies, 30.4% of its external debt, and 12.7% of its total public debt.¹⁶
- 2.3 **Summary of sovereign guaranteed and non-sovereign guaranteed approvals during the 2016-2021 country strategy period.**¹⁷ During the 2016-2021 country strategy period (up to October), the Bank approved 17 sovereign guaranteed loan operations and 70 technical cooperation operations for a total of US\$3,092,300,000, as follows: 20 investment loans for US\$2,369,730,000, 7 policy-based loans (PBLs) for US\$701.6 million, and 70 technical cooperation operations for US\$20.94 million. IDB Invest approvals consisted of 10 operations totaling US\$142.76 million, which is twice the amount approved during the 2011-2015 strategy period. At the end of October 2021, IDB Invest had approved four operations for a total of US\$46 million in sectors including the financial sector and support for MSMEs. IDB Lab approvals consisted of nine operations for a total of US\$10.7 million. In 2021, IDB Lab approved two operations for a total of US\$1.3 million in the value chain, neighborhood store, and digitalization sectors.

B. Main outcomes under the country strategy for 2016-2021

1. Productivity and diversification of the economy

- 2.4 **In the 2016-2021 country strategy period, the Bank was a very significant partner in terms of financing and technical assistance for transportation infrastructure.** The main achievements include: (i) Silver Line portion of the world's most extensive cable-car system, which joins together La Paz and El Alto and transports 274,000 passengers per day; (ii) La Paz – El Alto highway, 13 kilometers (km) long and carrying 36,000 vehicles per day, with new rigid pavement technologies; (iii) rehabilitation of 120 km, and 432 km in execution, in the primary road network, reducing vehicle operating costs by 12% and shortening travel time by 24 seconds/km; and (iv) rehabilitation of the Cobija airport on the northern border with Brazil, benefiting 212,000 passengers per year, enabling its use by larger aircraft, allowing an increase in flight frequencies, and improving cargo transportation.
- 2.5 **The Bank continued to support the country's rural development.** Worth noting are the following achievements: (i) expansion of the agricultural land under irrigation by 30,000 hectares, covering 22% with technified irrigation, which amounts to 54% of the national irrigation program, and benefiting more than 27,000 households, which saw their income rise by 45% and the value of their production by 70%;¹⁸ (ii) improvements of up to 30% in food security for one third of all vulnerable municipios; (iii) increase of more than 90% in the agricultural productivity of small producers through technology transfers;¹⁹ and (iv) titling of

¹⁶ Source: Central Bank of Bolivia (BCB).

¹⁷ Country strategy with Bolivia for 2016-2021, document GN-2843, CII/GN-312 of 10 February 2016 and GN-2843-3, CII/GN-312-3 of 13 October 2021.

¹⁸ Figures based on the PRONAREC I impact evaluation. See details at [https://publications.iadb.org/evaluación PRONAREC I.pdf](https://publications.iadb.org/evaluación%20PRONAREC%20I.pdf).

¹⁹ A total of 192 municipios were classified as having high or medium vulnerability to food security. Details on the impact evaluation at [https://publications.iadb.org/Impactos CRIAR I.pdf](https://publications.iadb.org/Impactos%20CRIAR%20I.pdf).

rural lands, resulting in the registration and delivery of 450,000 titles to rural property.

2. Closing of social gaps

- 2.6 **Under this pillar, the Bank supported an expansion of access to good quality basic services.** The following outcomes are noteworthy: (i) coverage for 22.5% of the 200,000 Bolivian households without access to electricity, through distribution and transmission lines; (ii) providing 15% of installed capacity through renewable energy by means of hydropower and solar photovoltaic/battery projects. Through solar energy, electrified households achieved a 21% savings in their monthly energy expenditure and tripled their use of electric light with respect to nonbeneficiary households. In addition, the Bank supported access to, and the quality of, water and sewer systems and sanitation solutions, which benefited more than 470,000 individuals. In this regard, the following is worth highlighting: (i) commercial operation of 32 wastewater treatment plants for 66,000 households, covering 15% of the country's wastewater treatment plant infrastructure; (ii) the Riberalta solid waste treatment complex, benefiting more than 15,000 households; (iii) leveraging of cofinancing and local counterpart resources for projects in an amount exceeding US\$100 million during the period.
- 2.7 **The Bank was a key partner for Bolivia in the health sector.** Worth highlighting is the support provided to comprehensively strengthen the health networks, their response capacity, and their hospital capacity, including improvements in obstetric and neonatal care to reduce maternal and infant mortality. In El Alto, health services benefited from outcomes associated with the: (i) construction and outfitting of two tertiary hospitals, the only ones of their kind in that city, serving a population of 1.2 million; (ii) Bolivian public health system's first linear accelerator for cancer treatment, in the El Alto Sur hospital; (iii) equipping of the five municipal health networks in El Alto for obstetric emergency treatment and cervical cancer management. In the department of Potosí, the following outcomes are worth noting: (i) construction of this department's first tertiary hospital;²⁰ (ii) financing of two secondary hospitals;²¹ (iii) the country's first and only department-wide medical emergency regulating center; (iv) remodeling and equipping of 11 primary care facilities in this department, including the addition of 30 obstetric nurses to the health system for the first time in the country's history. In maternal and neonatal health, the following outcomes are worth noting: (i) financing of nine equipped secondary hospitals in five of the country's nine departments; and (ii) a tertiary pediatric hospital in El Alto that will benefit 2.8 million people in 51 municipios. In child health, worth highlighting is the construction of 48 facilities in Chuquisaca and Potosí for activities aimed at promoting early childhood development. It is worth noting that the building information modeling (BIM) process was introduced as a pilot in Bank-financed hospital investments to operate as a means of boosting the efficiency and quality of all public works.

²⁰ Construction started in March 2018 and has reached a very advanced stage in 2021 (BO-L1078).

²¹ Construction started in 2015 and the opening of the facilities is currently pending (BO-L1067).

- 2.8 **The Bank included the strategic issue of urban development and cities in its dialogue with the government, both in specific areas and at a crosscutting level.**²² This dialogue yielded the following noteworthy achievements: (i) design of a new housing policy, under which the Bank is a key government partner in reducing the large housing shortage and furthering economic growth and job creation; (ii) the country's first urban and mobility transformation, through the new Parque de las Culturas y la Madre Tierra [Park of Cultures and Mother Earth], to strategically link the area of influence with other urban and mobility areas; (iii) design of the Metropolitan Linear Park between the cities of La Paz and El Alto as a 17-km-long green corridor to foster nonmotorized mobility and environmental improvements; and (iv) approval of a specific program to improve water management and security in cities following the water shortage emergency of 2016.
- 2.9 **The IDB Group was also a key partner for the country in addressing and mitigating the effects of the COVID-19 pandemic.** Amid the health emergency, in the social area, the Bank helped to ensure minimum income levels for vulnerable people affected by this shock, both in the immediate term and during the recovery, by means of cash transfers. In addition, in the production area, the Bank approved resources to contribute to the short-term financial sustainability of micro, small, and medium-sized enterprises (MSMEs) with a view to maintaining jobs. The modality of the prototype loans enabled the Bank to respond quickly, from programming to approval of substantial financial resources, to address the health, social, and economic emergency arising from COVID-19. Specifically, the design of the prototypes for vulnerable population groups, focused on cash transfers, and the operational and financial characteristics of the prototypes enable timely execution of the resources involved in these operations once they have been deemed eligible for disbursement. Furthermore, IDB Lab helped to mitigate the economic effect of the pandemic, particularly on small neighborhood shops, by digitally connecting them to customers and vendors and incorporating the agricultural production component into this channel for the sale of fruits and vegetables.

3. Improvement in public governance

- 2.10 **In terms of improving the effectiveness of public governance, achievements in strengthening public governance at the central and subnational level and public investment stand out.** The main achievements include: (i) implementation of the Public Management System (SIGEP) for 87% of all of the country's municipios; and (ii) updating of land registries in 12 municipios, which account for 63% of the country's urban population.²³ The Bank also supported the updating of various regulatory frameworks, including: (i) approval of a draft electricity sector bill to replace an earlier law enacted in 1994;²⁴ and (ii) preparation of an updated

²² Working jointly with other divisions such as Climate Change, Gender, Water, Energy, and Transportation. This dialogue arose from demographic changes in Bolivia and the progressive expansion of the urban population (to 75% of the total), which put a spotlight on the development problems brought on by the disorderly growth of cities, the lack of public services and public spaces, and the large housing shortages.

²³ A case in point in the municipio of Cochabamba, where the use of Bank-financed cartography between 2018 and 2019 enabled a 100% revenue increase.

²⁴ Law 1604 on Electricity, and its implementing regulations, dates from 21 December 1994, making it older even than the Bolivian Constitution, which was promulgated on 7 February 2007. See https://sawi.aetn.gob.bo/docfly/app/webroot/uploads/IMG-ML_LA-admin-2010-09-23-1604.pdf.

legal framework reflecting the country's current circumstances and future projections for the electricity sector.

2.11 In addition, the Bank supported sector reforms and national strategies.

These include: (i) implementation of a regulatory information system for water, sanitation, and solid waste operators; (ii) national wastewater treatment strategy; (iii) national rural water and sanitation strategy; and (iv) Katari basin master plan for Lake Titicaca cleanup. With regard to institutional considerations in the health sector, the following are noteworthy: (i) design of the Sistema Único de Información en Salud [Single Health Information System] (SUIS) and preparation of the Ministry of Health's Strategic Electronic Government Plan (PGE); (ii) preparation of the characterization standard for tertiary care hospitals; (iii) development of a new model for hospital administration; (iv) diagnostic assessment of the country's tertiary hospital infrastructure; (v) intercultural reorientation of the system's primary care model; and (vi) preparation of a national strategy for essential obstetric and neonatal care. In transportation, the following achievements are worth noting: (i) design and approval at the central level of a framework for reforming the sector transportation policy; (ii) modernization of the Transportation Law, with a multimodal focus.

2.12 The Bank also provided support in the area of environmental management.

These efforts included: (i) the governance and financial protection reform for disaster risk management; (ii) greater responsiveness to climate risk; and (iii) strengthening and modernization of the regulatory, institutional, and budgetary framework for environmental management, including multiple management actions for pollution control and comprehensive management of forests and biodiversity.

4. Crosscutting themes

2.13 In gender equality and diversity, 72% of the loan portfolio incorporated a gender and/or diverse populations perspective, in addition to reimbursable resources.

It should be noted that the Bank approved 23 loans out of a total of 32 in its portfolio, and they include support for greater gender equality and diversity. A high percentage of these loans corresponded to projects consistent with the crosscutting issues of gender and diversity, thanks to a fluid dialogue with the various counterparts and the relevance of these two issues for the country. In addition, work was done to assist in reducing violence against women. The most significant outcomes include: (i) addition of a gender policy for the Empresa Nacional de Electricidad [National Electricity Company] (ENDE) and Administradora Boliviana de Carreteras [Bolivian Highway Administration] (ABC); (ii) fostering women's empowerment in the water sector, including indigenous women, and in agriculture; (iii) Bank leadership in supporting the Ministry of Justice on issues of expenditure quality to address violence against women; (iv) change in public policies associated with social prevention of violence against women by restructuring the Fuerza Especial de Lucha contra la Violencia [Special Anti-violence Task Force] (FELCV); (v) increase in the public resources allocated to the Office of the Public Prosecutor's specialized police force for the prevention of violence against women from 5% to 15%; and (vi) support for the design of the

Ciudad Mujer program in the departments of Cochabamba and Tarija.²⁵ In the crosscutting area of diversity, the following is worth highlighting: (i) consolidation of four indigenous autonomies, achieved through key Bank support; (ii) IDB Lab undertook intercultural initiative in workforce integration, higher education, and entrepreneurship, incorporating gender equity and valuing women's active participation; (iii) IDB Invest engaged in the development of policies for sales on credit aimed at small and medium-sized producers and with a gender approach in risk management, including specific variables for women producers identified during the analysis stage; and the design of a differentiated skill-development program for women producers.

- 2.14 **The Bank also significantly contributed to job placement and workforce integration with a gender focus.** Worth highlighting are the following achievements, whose impact on women can be identified: (i) strengthening the Servicio Público de Empleo [Public Employment Service] (SPE) by adding 13 offices and a national employment portal, quadrupling the number of registrations and job searches, 54% of these being accounted for by women and 68% by young people; (ii) training more than 15,500 individuals, half of them women, and achieving a 60% integration into the workforce and an increase in average income of 6% to 10%;²⁶ and (iii) improvement in the digital skills and socioemotional skills of 27,000 students, boosting their ability to access the labor market. In business development and innovation: (i) financing for 6,439 MSMEs in sectors such as agribusiness²⁷ and technical assistance to 1,539 MSMEs and 1,394 women for their economic empowerment, together with IDB Invest; (ii) coordination of the innovation ecosystem with peers in Peru, Mexico, Colombia, and Chile, with support from IDB Lab, to reduce innovation and entrepreneurship gaps. With regard to achievements in actions focused on workforce integration of indigenous and Afro-descendant populations, there is scant disaggregated evidence.²⁸
- 2.15 **The IDB Group stood out as a key partner for Bolivia in sustainability and climate change adaptation.** Between 2016 and 2019, climate finance was particularly high at 50% of the amount approved for the period,²⁹ consisting of 34 operations that included climate considerations and contributed to the country's responsiveness, adaptability, and water security.³⁰ The main outcomes include: (i) 40% reduction in economic and human damage due to rain in the cities of La Paz and El Alto, protecting more than 10,000 households from floods thanks to master drainage plans; (ii) water and sanitation projects with a multipurpose approach and comprehensive solid waste management that benefited

²⁵ The centers and the program will be built and implemented with national government resources.

²⁶ Details on the impact evaluation in Novella and Valencia (2019) and Durand (2018).

²⁷ Which in turn made it possible to allocate local working capital to expanding credit access for customers and distributors. Companex, 12379-02.

²⁸ OVE evaluation (2020).

²⁹ The climate finance baseline was 3.4% of the total amount approved by the IDB Group (2012-2014 average). In 2015, it reached 35.5% of the total amount approved by the IDB Group, and in the 2016-2019 period, it amounted to nearly 50%. In 2020, practically no climate finance was provided. If 2020 is considered, the average is 38.62%.

³⁰ Of the 50% share of climate finance in the total for 2016-2019, 12% is for climate-change mitigation and 38% is for climate-change adaptation.

175,000 households through wastewater treatment, 168,000 households through greater continuity of the water supply, 73,000 households through improvements in water quality, and 185,000 households through improved access to drinking water; (iii) provision of drinking water in La Paz and other cities during the 2016 water crisis; and (iv) addition of the EDGE certification requirement for hospital design and construction in the context of the National Hospital Plan financed with multilateral resources. IDB Lab contributed to: (i) reducing greenhouse gas emissions through the implementation of green financial products for climate change adaptation and mitigation by small agricultural producers; and (ii) the implementation of a model for conservation of natural water sources in the Chaco. IDB Invest contributed by: (i) applying an environmental and social risk management component in all of its investment projects, under the premise that sustainable businesses pose lower risks and are more likely to have a positive, lasting impact on development; (ii) putting in practice the concept of sustainability for clients in order to carry out actions linked to best practices in production, responsible use of resources, waste reduction, and others; and (iii) positioning itself as a model in the region in sustainable finance.

C. Active portfolio and lessons learned

- 2.16 **Active portfolio of sovereign-guaranteed operations.** As of the end of October 2021, the active sovereign-guaranteed portfolio consisted of 32 operations for a total of US\$3.3 billion.³¹ The main strategic areas addressed through these operations were: (i) improvement in the quality of public goods and services; (ii) reduction in vulnerability to natural disasters and climate change; (iii) reduction in socioeconomic vulnerability to the effects of the pandemic; (iv) expansion of water and sanitation coverage, particularly in rural areas; and (v) effectiveness of public governance. Technical cooperation operations totaled US\$11.9 million and were aimed at improving governance effectiveness, promoting innovation, and delivering quality goods and services.
- 2.17 **Active portfolio of non-sovereign guaranteed (NSG) operations.** As of 31 January 2022, the active IDB Invest portfolio consisted of seven operations totaling US\$56.8 million. Five of these operations, accounting for 97% of the total portfolio amount, are corporate loans to finance telecommunications infrastructure and facilitate the distribution of basic consumer goods through small retail stores. The remaining 3% is for expanding credit to sectors such as commerce, cattle farming, industry, services, and agriculture through financial institutions. As of December 2021, IDB Lab's active portfolio of nonreimbursable technical-cooperation operations in Bolivia consisted of five operations totaling US\$2.8 million. These operations support revitalizing the entrepreneurship and innovation ecosystem, enabling access by low-income, public-school students to high-quality vocational training and better chances for joining the workforce, and accelerating the digital transformation process for the provision of financial services by regulated entities. Worth highlighting in 2021 is the approval of two new technical cooperation operations for US\$1.3 million, respectively aimed at strengthening neighborhood shops through new product lines and digitalization and at reinforcing the economic inclusion of indigenous and urban periphery youth

³¹ Some operations have as many as three subexecuting agencies.

by coordinating public and private stakeholders to create an urban-rural link through digitalization and inclusion, developing talent and skills in targeted sectors.

- 2.18 **Lessons learned by the IDB Group at the strategic level.** The IDB Group succeeded in positioning itself as the country's key partner in various areas, not only due to the financing it provided but also because of its significant technical contributions, derived from the value added by its teams. The priority areas were supported through a consistent and continuous program. The findings regarding outcomes achieved in each pillar of the country strategy for 2016-2021 (increasing productivity and diversification in the economy, closing social gaps, and improving public governance) yield the following lessons: (i) the importance of providing targeted and timely technical cooperation as part of a combined or sequential use of the Bank's various financial instruments to consolidate investment programs launched and initially executed with the support of technical cooperation operations, while adding key consulting services to assist execution; (ii) the decisive effect of insufficient execution capacities on the part of the responsible units and the difficulties in implementing complex execution mechanisms for the achievement of outcomes, particularly at the subnational level and when it required coordinated participation by various government authorities or agencies; (iii) the importance of including information and communication technologies (ICT) and human resource training in management as a crosscutting factor in the IDB Group portfolio in Bolivia, to which end it is advisable to provide for this as a key dimension in the design of the programs, capitalizing on the sector knowledge of the Bank teams and bearing in mind that the benefits of this support will not necessarily be immediate; (iv) in the case of IDB Invest's NSG portfolio, the importance, at a strategic level, of capital investments to help financial institutions maintain a stable capital position in scenarios of large portfolio expansion. However, these financial institutions will need to continue their efforts to attract additional injections of capital with a view to achieving high growth rates; (v) in the case of the IDB Lab's NSG portfolio, the following lessons were learned at the strategic level: by conducting regular information sharing meetings with the Ministry for Development Planning, a better understanding was achieved regarding the objectives and scope of IDB Lab as well as regarding the potential impact from the execution of new private-sector operations (in line with the provisions of the PDES), which create no commitments or costs for the State and make it possible to leverage local contribution resources to maximize the impact.
- 2.19 **Lessons learned by the IDB Group at the operational level.** With regard to the sovereign-guaranteed portfolio, the following are lessons learned from the findings on the reasons for delays in program execution: (i) ensure continuous technical support for the execution units to enable adequate and sustainable execution levels in line with the OVE recommendations (see details in Annex V); (ii) have preinvestment studies and final designs in place when starting the execution of a program to enable quick and effective infrastructure procurement processes, (iii) strengthen fiscal forecasts to ensure the availability of investment resources for the entities responsible for execution and subnational agencies, with a view to making the local counterpart agreed under the programs available in timely fashion, as the case may be; (iv) encourage the hiring of specialized professionals at the execution units on the basis of merit and providing for compensation consistent with their performance and responsibilities; and (v) provide Bank

support and financial resources for the contracting of consultants and specific supports to achieve continuity and sustainability in the entities and units executing Bank-financed projects. In the case of the IDB Invest NSG portfolio, the following are lessons learned from the findings on the operational execution of the portfolio: (i) the importance of conducting multiple sensitivity analyses, particularly in operations to support financial institutions, with a view to considering a broad range of potential factors in order to obtain more realistic projections; and (ii) the value of carefully considering the previous growth trends, the relative size of the IDB Group loans, and the potential risks associated with macroeconomic factors. In the case of the IDB Lab NSG portfolio, the following are lessons learned: (i) the scalability of operations hinges on the ability of the executing agencies to continue to expand and improve the pilot projects and their interest in doing so; (ii) projects and executing agencies have been identified that are sustainable but not scalable in the short term; (iii) financed projects identified as pilots involve higher risks in terms of achievement of objectives than other types of projects; and (iv) the possibility that errors will be made should be accepted as an integral part of a project's dynamics.

III. PRIORITY AREAS

- 3.1 **IDB Group country strategy with Bolivia for 2022-2025.** Considering the government's priorities reflected in the Economic and Social Development Plan (PDES) 2021-2025, the lessons learned during the previous strategy period (2016-2021), the structural challenges identified in the 2019 Country Development Challenges (CDC),³² and the challenges arising from the COVID-19 pandemic, as well as the Office of Evaluation and Oversight's (OVE) recommendations regarding the previous country strategy, the following three priority areas are proposed to guide the IDB Group's support to the government program under the country strategy for 2022-2025, with the general objective of fostering sustained, inclusive, and sustainable economic growth: (i) economic reconstruction and boosting productivity; (ii) diversification of production; and (iii) inclusive and sustainable social development. These three areas continue the priorities of the 2016-2021 country strategy with regard to various areas of intervention (infrastructure volume and quality, productivity and economic diversification, digital transformation, etc.), while incorporating new considerations arising from the alignment of the priorities with the PDES-2021-2025 (such as the relative weight, under the new country strategy, of each of the sectors that contribute to the areas of intervention and/or their particular focus). The country strategy for 2022-2025 will provide continuity and support to the crosscutting issues of gender and diversity, climate change and environmental sustainability, and institutional capacity and rule of law, building on the progress achieved under the strategy now coming to an end. The IDB Group will continue to adopt a multisector approach, providing support through new interventions to complement the continuing portfolio operations, in addition to offering technical assistance and analytical studies. The main development challenges identified on the basis of the CDC (for more details, see

³² The main development challenges that were identified in the 2019 CDC include improving productivity in the economic environment, boosting labor and business productivity, and bolstering the role of the external sector and private sector in growing the economy. See details in the link in the electronic links section.

paragraph 1.11) include improving productivity in the economic environment, diversifying the economy, increasing industrialization, boosting the role of the private sector, strengthening institutional capacity, and preserving and building on the social achievements in an inclusive and environmentally sustainable manner, particularly in a context of accelerated urbanization.

- 3.2 **The Economic and Social Development Plan 2021-2025.**³³ The actions set out in the country strategy for 2022-2025 are consistent with the Economic and Social Development Plan 2021-2025, Rebuilding the Economy to Live Well, toward Import Substitution Industrialization, which rests on 10 strategic pillars: 1. Economic reconstruction, regaining macroeconomic and social stability; 2. Import substitution industrialization; 3. Food security with sovereignty, promotion of value-added exports, and tourism development; 4. Deepening of the natural resource industrialization process; 5. Education, research, science, and technology to strengthen and develop productive capacities and potential; 6. Health and sports to protect lives through comprehensive care in times of pandemic; 7. Judicial reform, digitalized and transparent public governance, and comprehensive security and defense through national sovereignty; 8. Sustainable and balanced environment in harmony with Mother Earth; 9. Integration and international relations with sovereignty; and 10. Cultures, decolonization, and depatriarchalization toward a cultural democratic revolution.
- 3.3 **Alignment.** The priority areas contribute to the objectives of the second Update to the Institutional Strategy 2020-2023 for the IDB Group (document AB-3190-2) of boosting productivity and innovation, human capital development and regional economic integration, social inclusion and equality, delivery of inclusive and sustainable infrastructure services, inclusion of the production sector in productive value linkages, strengthening State capacity, and strengthening the institutional context to promote business development. In addition, they are aligned with the priority areas of the IDB Invest Business Plan 2020-2022 (document CII/GA-80-2), the IDB Invest Business Plan 2020-2023 (document CII/GA-77-8), and the IDB Lab Business Plan 2019-2021 (document MIF/GN-235-3), notably the areas of institutional improvements for a properly functioning private sector, financial inclusion, innovative business ventures, and an increase in resource mobilization, particularly in terms of infrastructure development, strengthening of corporate sector capacities, and coordination with the private sector to work on priority areas of action, such as support for small and medium-sized enterprises (SMEs). Moreover, these areas adopt a crosscutting approach in terms of gender equality, diversity, and inclusion; climate change and environmental sustainability; and institutional capacity and rule of law. The new country strategy is also aligned with, and contributes to, the IDB Group's Vision 2025, which aims to sustainably foster growth opportunities for all. Specifically, the new country strategy prioritizes the three medium-term goals of Vision 2025 (reactivate the production sector, promote social progress, and strengthen the good governance of institutions) and includes actions in line with the five investment priorities under Vision 2025 (regional integration, digital economy, support for SMEs, gender and diversity, and climate change action).

³³ The document can be viewed at the link in the electronic links section.

Economic reconstruction and boosting productivity

- 3.4 This pillar addresses the challenge of increasing productivity and its impact on growth to achieve an inclusive and sustainable economic reconstruction.** The main development challenges identified in the CDC include improving productivity in the economic environment and boosting labor and business productivity. Historically, total factor productivity (TFP), i.e., the efficiency with which the factors of production are used, has made a negative contribution to Bolivia's growth. In the 1990-2020 period, the economic growth rate averaged 3.6%, but TFP contributed negatively (-2.1 percentage points) to this growth. In the most recent period, 2000-2020, TPF also made a negative contribution (-0.8 percentage points) to the period's 3.5% average growth. In addition, labor productivity is low in comparison to other economies in the region.
- 3.5 Increasing human capital development, including a gender and diversity perspective, is essential in order to boost productivity.** The reasons for Bolivia's low labor productivity notably include a mismatch between the skills of the workforce and the human capital needs of businesses.³⁴ The lacked skills range from basic work skills to technological, such as digital, skills, as well as socioemotional skills.³⁵ Challenges are evident at the various stages of human capital formation, ranging from limited access to preschool education and high dropout rates at the secondary education level to room for improvement in terms of matching the labor market needs to the supply of labor.³⁶ Despite the strides made in recent years in access to education, there are persistent gender and minority gaps in terms of years of schooling. On average, the urban population has 11.4 years of schooling, in contrast to a mere 6.4 years of schooling in the case of the rural population. At the nationwide level, men have an average of 10.6 years of schooling versus 9.4 years in the case of women. When broken down by ethnicity, there is also a difference in years of schooling: an average of 11.1 years in the nonindigenous population and of only 7.5 years in the indigenous population.³⁷
- 3.6 Access to finance can boost the productivity of businesses, particularly MSMEs.** Not only is labor productivity limited, but so is business productivity, since 99.5% of the country's businesses are MSMEs,³⁸ and MSMEs' productivity is only 36% of that of large companies.³⁹ This being the case, the empirical evidence shows that access to finance by the productive sector, including MSMEs, helps to boost productivity by enabling better allocation to the most profitable projects, encouraging innovation, research, and development, facilitating access to greater

³⁴ Urquidi, M., H. Valencia, C. Foronda, M. Chumacero, and A. Bagolle. 2018. Encuesta Mercado Laboral en Bolivia: Oferta 2016 / Demanda 2015-2016. Technical Note 1450. Washington, D.C.: IDB.

³⁵ The results of the STEP survey (2012) reflect a skills shortage in the Bolivian workforce.

³⁶ Country Development Challenges (CDC) Bolivia (2019).

³⁷ Figures based on the 2019 Household Survey.

³⁸ Source: Data from the Ministry of Productive Development and Plural Economy (2015).

³⁹ Based on data from the World Bank's Enterprise Surveys (2017).

value-added markets and segments, and cushioning the impact of volatility and macroeconomic shocks.⁴⁰

3.7 The volume and quality of sustainable infrastructure are key factors for economic reconstruction and for boosting the country's productivity. One of the main development challenges identified in the CDC is closing the infrastructure gaps. In Bolivia, the estimated short-term (five-year) gap in infrastructure access is US\$5.578 billion, equivalent to 14.7% of GDP (2018), while the long-term gap is US\$36.320 billion, equivalent to 90% of GDP (Bonifaz et al., 2019).⁴¹ The short-term gap is centered on (primarily rural) sanitation, while the long-term gap is centered on sanitation and transportation. The infrastructure gaps affect transportation and logistics costs, therefore impacting competitiveness in foreign trade, and are a factor in the lack of integration into production chains. In the 2019 Global Competitiveness Index, Bolivia scores 57 points out of a possible 100 in perceived infrastructure quality, while in the World Bank's 2018 Logistics Performance Index (LPI), Bolivia's score is 2.36 points out of a possible 5.⁴² In principle, sustainable infrastructure entails financial, economic, social, and environmental sustainability to assist in achieving the goals of sustainable development, emissions reduction, and climate change adaptation. Integrating nature-based solutions into the national disaster risk management strategies for sustainable infrastructure, as well as investing in a strategic and targeted management of ecosystems, can be an effective means of enhancing resilience to many natural risks.

3.8 Closing the digital infrastructure gap and accelerating the country's digital transformation are key factors for economic reconstruction and for boosting productivity. The COVID-19 pandemic has underscored the importance of affordable access to telecommunications services. The preexisting gaps in access to, and use of, information and communication technologies (ICT) made it difficult for the most vulnerable population groups to benefit from telemedicine, online education, and telework services during the pandemic. Fixed broadband penetration in Bolivia is 6.5%, more than five times below the average for Organisation for Economic Co-operation and Development (OECD) countries (34.81%),⁴³ while mobile broadband penetration is 83%, compared to an average of 127.28% in OECD countries.⁴⁴ A mere 37% of the population has 4G coverage, significantly limiting the quality of service as measured by speed.⁴⁵ The connectivity infrastructure gap is estimated at US\$2.100 billion, of which US\$1.200 billion

⁴⁰ See details in studies such as: Rajan, R. G. & Zingales, L. (1998). "Financial Dependence and Growth," *The American Economic Review* 88(3), 559-586; Beck, T.; Levine, R.; and Loayza, N. (2000). "Finance and the sources of growth," *Journal of Financial Economics* 58, 261 – 300.

⁴¹ See details in: Bonifaz, J. L., R. Urrunaga, J. Aguirre, and P. Quequezana. 2019. *Elaboración del cálculo y diagnóstico de la brecha de infraestructura de largo plazo (2019-208) en los países andinos* (mimeograph).

⁴² Source: World Economic Forum, *The Global Competitiveness Report 2019* (Geneva, WEF, 2019) and World Bank, *Connecting to Compete 2018 - The Logistic Performance Index and Its Indicators*, (Washington, D.C.: World Bank, 2018). According to this indicator, Bolivia is ranked 131st out of 160 countries.

⁴³ Source: International Telecommunication Union (ITU), 2021.

⁴⁴ Source: ITU (2021).

⁴⁵ Source: ITU (2020).

corresponds to rural areas.⁴⁶ In terms of service affordability, the cost of fixed broadband access represents 40% of gross monthly household income for the poorest 40% of the population, compared to 2.43% for the same population segment in Latin America.

- 3.9 **A solid institutional structure will have a positive impact on economic reconstruction, productivity, and quality of life in Bolivia.** The main development challenges identified in the CDC include strengthening the institutional framework to attract domestic or foreign private capital. Bolivia has a regulatory framework that promotes transparency and integrity in public governance, access to information, and control of corruption. However, the country needs to adopt up-to-date governance, accountability, and public procurement arrangements.⁴⁷ While various initiatives have laid the institutional groundwork for digital governance, barriers continue to exist, such as the failure to make use of ICT at government agencies in both the back office (operational and procedural area) and the front office (area of direct contact with the public). In addition, the pandemic revealed the need to strengthen the mechanisms for registration and identification of vulnerable households and households susceptible to shocks, as well as the digital payment mechanisms and governance mechanisms (finance, interinstitutional coordination).
- 3.10 **Governance and the rule of law affect the business climate and transaction costs in public and private governance.** The Latinobarómetro (2018) survey shows that Bolivians regard transparency and integrity as their second biggest concern after economic problems.⁴⁸ According to the World Bank's Worldwide Governance Indicators (2019), Bolivia continues to score below the Latin America and the Caribbean (LAC) and OECD averages.⁴⁹ At the same time, in Bolivia, the business climate has a crosscutting impact on issues ranging from high transaction costs to the delivery of public services. In addition, the business environment exhibits significant room for improvement in terms of technification and innovation, export orientation, integration into productive linkages, trained personnel, and pressures on the side of labor costs. Some of the reasons behind these challenges are a consequence of various factors that impair the business climate, such as informal sector practices, heavy red tape, slow pace of transactions, limited quality and transparency of information, outdated regulations, and a gap in the use of ICTs.
- 3.11 **Action proposals, in the form of dialogue, technical assistance, or financing:**
(i) access to finance for MSMEs, with flexible funding options and risk mitigation instruments, including credit lines and guarantees and thematic bonds;

⁴⁶ Garcia Zaballos, A., Iglesias, E., and Puig, P (2021): Brecha Digital en América Latina y El Caribe. Informe anual del índice de desarrollo de la banda ancha (2021).

⁴⁷ According to the IMF, Bolivia should consider reforms in the current legislation governing public enterprises to enhance accountability and transparency, clarify the responsibilities of key entities and agencies, strengthen corporate governance regulations, and improve the budget approval and oversight process. See Article IV (2018): <https://www.imf.org/~media/Files/Publications/CR/2018/cr18379.ashx>.

⁴⁸ See: https://www.latinobarometro.org/latdocs/INFORME_2018_LATINOBAROMETRO.pdf.

⁴⁹ The country has a score of 24.5/100 in control of corruption, 11.1/100 in rule of law, and 25.9/100 in government effectiveness (<https://info.worldbank.org/governance/wgi/Home/Reports>). In recent years, these government, perceived corruption, and rule of law indicators have tended to deteriorate (Worldwide Governance Indicators, World Bank, 2007, 2012, and 2017).

(ii) strengthening of partnerships with local financial institutions; (iii) financial and regulatory support for new business models and identification of market niches with a long-term vision; (iv) opening of avenues to formalize and strengthen the technical and management capacities of MSMEs; (v) development of production linkages, including the option of partnerships with the private sector; (vi) productive investment and creation of commercial and integration opportunities; (vii) deploying connectivity infrastructure and low-cost, quality service coverage; (viii) boosting the development of new technologies and digital solutions in public governance including electronic government and private businesses, with a focus on gender and diversity, digital talent, vulnerable populations, and minorities.

Diversification of production

- 3.12 **The country seeks to foster its productive development by diversifying production in selected sectors, reducing its concentration in the primary sector.** The main development challenges identified in the CDC include boosting the role of the external sector in economic growth. The productive and export matrix is concentrated in hydrocarbons and minerals, making the economic cycle highly correlated with the price of oil. About 80% of the total price of exports is accounted for by commodities, specifically six products: natural gas, zinc, gold, soybeans, silver, and tin. The Herfindahl-Hirschman index by product is 0.22, denoting a concentration of exports.
- 3.13 **In the country's productive structure, there is a persistently inverse relationship between the sectors and employment and productivity levels.** The sectors with the largest share in employment are the least productive. A case in point is the agricultural sector, which maintained positive growth rates despite the pandemic but has a great deal of room for improvement in productivity.⁵⁰ Then there are sectors such as the hydrocarbons industry, which face structural challenges beyond the current circumstances and the COVID-19 shock. In the case of lithium, while the country has large reserves, mining and processing are at an early stage and could benefit from institutional strengthening to facilitate sustainable development of lithium and other minerals, building a new source of revenue and knowledge for the country. These challenges are at the same time an opportunity to accelerate the Bolivian economy's transition to nontraditional productive sectors that provide greater value added and are more sustainable (e.g., agribusiness and tourism).
- 3.14 **In this context, a still limited degree of innovation can hinder industrialization and a transition of the economy to nontraditional sectors.** In 2019, the country was ranked in 124th place out of 141 countries in the World Economic Forum's innovation dimension⁵¹ as a result of low investment levels in research and development (R&D), absence of skilled human capital, and a poorly coordinated national innovation system.⁵² Resolving the abovementioned issues

⁵⁰ In Bolivia, the agricultural sector is important for the economy and for the country's jobs. In 2019, this sector (including agriculture, forestry, hunting, and fishing) accounted for 13% of GDP and 28% of the economically active population.

⁵¹ WEF 2019, *ibid*.

⁵² Average investment in R&D in the last decade was a mere 0.16% of GDP versus 0.67% of GDP in the region and 2.3% of GDP in the OECD countries. Only 6% of Bolivia's investment in R&D comes from the private sector, compared to an average of 38.8% in Latin America and 58% in the OECD.

could significantly contribute to fostering productive diversification, creation of value added in the nation's production, innovation, and development of new businesses.⁵³

3.15 To achieve a successful productive transformation, it is critical to increase State revenues and the quality of expenditure, particularly public investment.

At the subnational level, there is a large dependence on revenue from the hydrocarbons and mining sectors. On the expenditure side, the high levels of public investment that are an integral part of implementation of the productive community-based social and economic model would benefit from management improvements to maximize their efficiency and impact.⁵⁴ The available evidence indicates that there is ample room to boost the technical efficiency of public expenditure⁵⁵ and its optimization. For example, options include streamlining tax expenditure and generalized energy subsidies, and addressing exemptions in the high-income socioeconomic segment.

3.16 Guide the private sector's contribution toward diversification and productive transformation and thus toward the country's economic growth and development.

The main development challenges identified in the CDC include boosting the role of the private sector in the economy's growth. In Bolivia, of the 6% of GDP contributed by public and private investment in infrastructure, 5.8% is public investment, while private investment falls below the levels recorded in other countries in the region (Peru, 2.1%; Colombia, 1.5%). In addition, total private investment in terms of Bolivia's GDP is a mere 7%, thus lower than in other countries in the region. The important role of the State in creating and participating in State enterprises and in public investment⁵⁶ could be complemented more vigorously by involving the private sector in the country development objectives established in the PDES-2021-2025, supported by a regulatory framework and policies that encourage such involvement. Measures could include private sector participation in infrastructure projects, including consolidating favorable conditions in areas such as regulation, institutional framework, and technical competencies for structuring and implementing projects under this modality. In line with this, the government has begun to explore projects envisaging potential collaboration between the public and private sectors.

⁵³ Coupled with the above, the innovation ecosystem is fragmented and has little support, whether public or private. See details in the most recent survey of experts by Global Entrepreneurship Monitor (GEM, 2014).

⁵⁴ Efficiency is represented by the country's distance to the efficiency frontier as defined by countries with greater coverage and infrastructure quality, given a certain level of public social capital. Bolivia's efficiency gap averages 41%, well above the averages of 27% for emerging market countries and 29% for Latin America. Source: International Monetary Fund, Article IV 2017.

⁵⁵ In Bolivia, technical inefficiencies, in the sense of potential losses due to inefficient expenditure in the form of procurement, wages, subsidies, and universal transfers, are estimated to amount to 6.3% of GDP. Source: IDB's Development in the Americas (DIA) 2018.

⁵⁶ For example, the Bolivian Constitution prohibits the granting of concessions to private entities in several sectors of the economy, allowing such entities to participate in certain sectors only under arrangements such as "strategic partnerships" or "public-private investments." In the case of energy, the Constitution provides that power generation, transmission, and distribution may only be carried out by the State and may not be subject to private interests or be placed under concession.

- 3.17 **Private-sector participation in the economy is influenced by perceptions of the business climate and legal certainty, which in turn depend on institutional capacity and the rule of law.**⁵⁷ In view of the fiscal limitations and challenges in the postpandemic period, the private sector could play an active role in the economic growth and consolidation of the social achievements, including the drive toward new industries and a more diversified economy, leveraging additional investment toward accomplishing the abovementioned objectives as well as toward a search for efficiency and productivity. The various factors that affect the country's business climate and are related to institutional capacity and rule of law include informal sector practices, red tape,⁵⁸ pace of transactions, quality and transparency of information, up-to-date regulations, and use of ICTs.⁵⁹
- 3.18 **Access to finance by the productive sector is essential for boosting productivity, and for economic and productive diversification.** Expanding to new productive sectors, attaining advanced levels in the chains of production, and boosting national production volumes require that businesses, particularly MSMEs, be equipped with sufficient capital and liquidity to invest and innovate. There is a considerable gap in access to finance for formal MSMEs, which are an important source of quality employment.⁶⁰ In Bolivia, 99% of businesses are in fact micro and small enterprises. The credit access gap is more significant when considering the informal sector, where it is estimated to be 1.7 times larger than in the formal sector. In all, 60% of Bolivian microenterprises report encountering restrictions, whether partial (37%) or outright (23%), on access to credit, in contrast to SMEs, only 13% of which report any restriction on credit access.⁶¹ In Bolivia, 43% of MSMEs are owned by women, well above the LAC average of 13%.
- 3.19 **Action proposals, through dialogue, technical assistance, or financing:** (i) development of nontraditional productive, value-added sectors in line with the objectives of the PDES-2021-2025; (ii) ecotourism development, combining natural capital preservation strategies with community development; (iii) inclusive and sustainable development of small and medium-sized agricultural producers, using a territorial, gender, and diversity approach; (iv) a climate-smart agriculture approach and integrated management to address climate change; (v) initiatives that assist and support public investment as well as incubation, acceleration, and consolidation of startups associated with knowledge, innovation, science, and technology, as well as alternative economies with a long-range vision; (vi) support for maximizing the surpluses created through national production to expand value-added exports; (vii) increased Bolivian exports with value added derived from the

⁵⁷ Bolivia withdrew from the ICSID (International Centre for Settlement of Investment Disputes) Convention in 2007, and foreign investors have no recourse to international arbitration.

⁵⁸ According to a recent IDB publication, "Wait no more," Bolivia is the region's country where it takes the longest to complete a single transaction (11.3 hours, compared to an average of 5.4 hours in the rest of the countries).

⁵⁹ The World Bank, in its 2017 survey "Enterprise Survey: Bolivian Country Profile."

⁶⁰ Based on the results of a survey of MSMEs, the gap between the reported credit supply and demand was equivalent to 5% of the country's estimated GDP for year-end 2017. See: <https://www.smefinanceforum.org/data-sites/msme-finance-gap>.

⁶¹ Outright restrictions are understood to mean that businesses had no access to credit at any financial institution and have no access to external credit. Partial restrictions occur when there are external sources, but a credit application at a formal financial institution is either partially or fully rejected.

productive diversification process; and (viii) support to continue to diversify the destination countries for Bolivian exports; (ix) support to boost industrialization, especially in the case of renewable and nonrenewable natural resources; (x) investments in ground and river transportation infrastructure, dry-dock infrastructure, and airport development, with an emphasis on maintenance and rehabilitation, equipment, and soft capacities; (xi) financing of infrastructure projects through partnerships with the private sector, fostering institutional strengthening in relation to this modality; and (xii) actions to foster energy efficiency and productive use of electricity through technological change and optimal management of demand.

Inclusive and sustainable social development

- 3.20 **Mass vaccination against COVID-19 and a systematic, medium- to long-term strategy to ensure periodic boosters are the starting point for a sound rebuilding of the economy.** In addition, these factors are the basis for restoring and strengthening a health system with high response capacity and for safeguarding the health and lives of the country's population. According to projections, in 2021 and 2022 Bolivia will resume its prepandemic levels of economic activity on the road to recovering its lost development. However, new waves of infections and new variants have extended the impacts of the pandemic. In view of this, what is needed is evidently a systematic, medium- to long-term strategy to achieve and maintain herd immunity against COVID-19 as an essential pillar, requiring additional efforts in various areas of action, from the procurement of appropriate vaccines for different age groups to the overcoming of the social and cultural barriers to vaccination.
- 3.21 **Health systems worldwide were hard hit by the pandemic, and Bolivia was no exception.** Despite the aforementioned social and economic strides made over the 2000-2019 period and the improvements in the health system's response capacity and accessibility of services,⁶² Bolivia has low life expectancy rates at birth in comparison with other countries in the region.⁶³ In addition, major challenges persist in terms of the health of the population: (i) high levels of chronic malnutrition, particularly in the rural population;⁶⁴ (ii) high maternal and infant mortality rates; and (iii) high prevalence of communicable diseases, with a simultaneous increase in pathologies caused by noncommunicable chronic diseases, financially overburdening the system. This is compounded by the impact of the pandemic, with high added demand for specialized hospital services appropriate for COVID-19 treatment and insufficient installed capacity to operate and maintain health care facilities. The sustainability of hospital investments requires creating specialized knowledge aimed at installing the appropriate technical and organizational capacities in the sector. Furthermore, system efficiency requires reinforcing primary health care through infrastructure and equipment to solve low-complexity health problems at the primary level, thus

⁶² In recent years, Bolivia prioritized investments in health infrastructure. The National Hospital Plan provides for the construction of 49 hospital facilities, introducing a management model that incorporates significant changes.

⁶³ 69.5 years (regional average in LAC: 75.8 years). World Health Organization (WHO), 2017.

⁶⁴ The chronic child malnutrition rate is 27.7% in rural areas versus 12.2% in urban areas. Encuesta Nacional de Demografía y Salud [National Demography and Health Survey] (ENDSA), 2016.

redirecting the flow of patients that often overwhelm hospitals due to poor response capacity at the first level of care.

- 3.22 **Significant gaps in equitable access to basic services continue to exist, primarily in rural areas.** The main development challenges identified in the CDC include continuing to make strides in terms of access to, and quality of, health, education, water and sanitation, and other basic services. In recent years, access to basic services has improved at the national level, but challenges persist, especially in rural areas and among the indigenous population. In 2018, while more than 98% of the population had access to electricity service at the nationwide urban level, one fifth of the rural population and 15% of the indigenous population lacked this service. In 2020, 94.6% of the urban population had access to drinking water, but 31.3% of rural households did not.⁶⁵ Also in 2020, 70.6% of the urban population had improved sanitation, compared to only 45.0% of the population in rural areas.⁶⁶ In 2018, 17% of the population nationwide, and 24% of the urban population, had internet access, compared to 0.8% of the rural population and 3% of the indigenous population.
- 3.23 **It is critical to boost quality employment and social security, with a gender and diversity focus.** The main development challenges identified in the CDC include expanding formality based on quality jobs. The Bolivian job market exhibits a high rate of informality, understood to mean lack of access to employment-related social security, affecting 8 of every 10 workers.⁶⁷ The gap in access to quality jobs is larger in urban areas, and the informality rate is higher for women and the indigenous population.⁶⁸ Labor regulations are out of date and establish high labor costs not counterbalanced by an equally high productivity. These factors affect the job market, which is characterized by a large number of small businesses and a high level of self-employment, in both cases with low productivity levels. The PDES 2021-2025 aims to improve the conditions of vulnerable households by creating decent jobs, prioritizing women, young people, and persons with disabilities.
- 3.24 **The social protection system needs to be strengthened to boost its response capacity to adverse shocks.** Bolivia has social protection networks like Renta Dignidad, Bono Juancito Pinto, and Bono Juana Azurduy, but they cover just 84% of the eligible population. While these social protection networks help to combat poverty by increasing the population's income levels to exceed minimum subsistence thresholds, the country lack policies to mitigate risks in the event of transitory shocks. The pandemic demonstrated how hard it is to protect households that are not poor and that, therefore, are not typically beneficiaries of traditional social protection programs, but that are vulnerable to falling into poverty in the event of any temporary adverse shock to their income. There is also an opportunity to enhance the efficiency in the management of existing social protection networks since, to date, the payments to beneficiaries of conditional

⁶⁵ However, those coverage levels do not mean access to safely managed drinking water (as defined under the Joint Monitoring Programme (JMP)), which includes quality variables in the provision of the service (continuity, potability, and location of the facilities).

⁶⁶ The 2020 water and sanitation data are taken from the PDES 2021-2025.

⁶⁷ 2020 data according to the PDES 2021-2025.

⁶⁸ Household Survey 2015.

cash transfers under subsidies such as the Bono Juana Azurduy and unconditional transfers like Renta Dignidad are not made to bank accounts.

- 3.25 **Action proposals, through dialogue, technical assistance, or financing:** (i) initiatives to close the coverage and quality gaps in health, hospital infrastructure and equipment, specialized human resources, and hospital management; (ii) initiatives for greater access to, and improved quality of, water, sanitation, solid waste, and drainage services with a multipurpose focus; (iii) larger deployment of telecommunications infrastructure to reduce the digital gaps; (iv) continued support of the country's rural electrification process, through renewable technologies to attain reliable, secure, and low-cost service, with energy generated from renewable sources, and incorporating digital technology; (v) initiatives promoting access to quality basic services for the indigenous population, farmers in the Amazon region, and Afro-Bolivians, incorporating cultural relevance and climate change mitigation, adaptation, and monitoring actions; (vi) support for the comprehensive development and delivery of housing to address the large housing shortage, including support through financial institutions; (vii) continued promotion of sustainable urban mobility by introducing ecoefficient public transportation; (viii) improvements in the urban environment, quality public spaces, and inclusive mobility through tactical urban planning interventions, including heritage conservation, and natural parks; (ix) scalable solutions to improve the quality of life of vulnerable populations in rural and urban periurban areas; (x) cash transfers as an efficient policy tool to continue to reduce poverty and strengthen the resilience of vulnerable households to climate change and natural disasters; (xi) the development of population records, establishing temporary, targeted cash transfer arrangements by means of electronic payment mechanisms; (xii) initiatives that promote a better connection between tertiary education offerings and the needs of the labor market; (xiii) incentive programs to boost formal employment in the private sector through integration into the workforce and job training; (xiv) programs to train and retrain the workforce based on specific, local productive sector needs; (xv) actions that prioritize quality employment with a focus on women, the indigenous population, persons with disabilities, and the lesbian, gay, bisexual, and transgender (LGBT) population; and (xvi) environmental restoration and preservation initiatives on agricultural land with a view to creating jobs in rural areas; (xvii) helping to strengthen the social protection system.

Crosscutting issues

- 3.26 **Gender and diversity.** The gender gaps in the labor market remain significant. According to data from the 2020 Household Survey, women's participation in the job market is 62%, while men's participation is 82%. This gap is primarily due to responsibilities for household chores and child care, which traditionally fall to women.⁶⁹ With regard to the wage gap in the private sector, in 2020 it was 17% in favor of men.⁷⁰ In urban areas, the unemployment rate for women (6.01%) is twice

⁶⁹ Approximately 8 of every 10 women who do not participate in the labor market cite household and child care responsibilities as the reasons, while only 2 of every 100 men cite these as reasons for not participating. SIMS (2019).

⁷⁰ Source: PDES 2021-2025. Based on 2018 Household Survey data, women's average salary amounts to only 65% of men's salary.

the rate for men (3.28%). Similar disaggregated data are not available at the indigenous or Afro-descendant population level. At the same time, Bolivia has very high rates of violence against women in comparison to other countries in the region.⁷¹ The most recent data indicate that 74.7% of women aged 15 or older in Bolivia suffered violence at some point in their lives.⁷² The femicide rate per 100,000 women was 2 per 100,000 women (113 cases) in 2020.⁷³ The causes and determining factors tend to be multidimensional. In the specific case of Bolivia, there are no studies establishing the causes.⁷⁴ In addition, the maternal mortality rate in Bolivia remains high,⁷⁵ at 160 per 100,000 live births, according to the national post-census study for 2011. In all, 68% of maternal deaths in Bolivia were of indigenous women.⁷⁶ With regard to diversity, according to data projections from the 2012 census, 41% of Bolivia's inhabitants are indigenous, and 0.3% are Afro-Bolivian. More than 40% and 29% of these populations, respectively, live in rural areas, characterized by high poverty rates and gaps in many dimensions of development. In the case of the indigenous population, primary school completion rates are nine percentage points lower than among nonindigenous children,⁷⁷ while health indicators are also lower than for the nonindigenous population.⁷⁸ In the case of the Afro-descendant population, from the little data available on its socioeconomic situation, it is known that 45% of Afro-descendants are living in poverty and 55% are economically active. In education, one third have accessed primary education, 48% secondary education, and 8% the university level (technical or bachelor's degree).⁷⁹

3.27 Action proposals, through dialogue, technical assistance, or financing:
(i) inclusion of gender and diversity perspectives in a crosscutting fashion in IDB operations; (ii) inclusion of women business owners in productive linkages, and

⁷¹ According to ECLAC, Bolivia has the highest prevalence of femicides of any country in South America.

⁷² Survey on Violence against Women, INE, Ministry of Justice, Bolivia, 2016. Pan-American Health Organization, 2012. Violence against Women in Latin America and the Caribbean: A Comparative Analysis of Population-based Data from 12 Countries.

⁷³ In 2018, the femicide rate was 2.3 per 100,000 women, with a total of 130 cases; and in 2019, it was 2.1 per 100,000 women, with 117 cases. Source: Bolivia's Office of the Attorney-General, 2021 (www.fiscalia.gob.bo).

⁷⁴ According to studies for other countries, factors that help to reduce violence against women include the increase in women's income and the availability of services to address associated emergency cases (such as the Centros de Emergencia Mujer [emergency centers for women] in Peru). Source: Agüero (2013) and Perova and Reynolds (2017).

⁷⁵ The identified causes include hemorrhages associated with abortions and childbirth, and gestational hypertensive disorders (preeclampsia and eclampsia) addressed belatedly due to the existing barriers to access, aggravated in certain regions of Bolivia by the altitude. Source: Jovanovic L, Pettitt D. Gestational diabetes mellitus. *JAMA* 2001;286(20):2516–8.

⁷⁶ The main causes for this include asymmetric access to quality health care services and the population's social, demographic, and cultural characteristics. Source: Estudio Nacional de Mortalidad Materna (Ministry of Health, 2016).

⁷⁷ The World Bank (2015). Indigenous Latin America in the Twenty-First Century. Washington, D.C.: The World Bank.

⁷⁸ With high levels of maternal and infant mortality, malnutrition, cardiovascular disease, HIV/AIDS, and other communicable diseases such as malaria and tuberculosis Source: United Nations, 2009.

⁷⁹ It is also known that 45% have Access to sewer service, 71% have access to piped water; and 22% of births by Afro-Bolivian women took place in their homes. Source: UNFPA, 2015. <https://bolivia.unfpa.org/sites/default/files/pub-pdf/Poblaci%C3%B3n%20Afroboliviana.pdf>.

promotion of their employability by business clients of IDB Invest; (iii) greater access to finance for women-led businesses; (iv) women's empowerment in the agroindustrial sector to develop more inclusive and sustainable food systems; (v) support for prevention and treatment of violence against women through quality services and technological solutions; and (vi) targeted policies for the inclusion, revaluation, and protection of the indigenous peoples, farmers in the Amazon region, and Afro-Bolivians. In addition, as is appropriate in view of their crosscutting nature, gender and diversity considerations are emphasized in the action proposals set out under the priority pillars, such as in sections 3.11, 3.19, and 3.25.

- 3.28 Institutional capacity and rule of law.** Since 2006, the State has taken on an important role as a driver of economic growth and social progress. However, there is a need to strengthen the institutional capacities of the public sector. In terms of State efficiency, in 2020 Bolivia obtained a score of 30.77 in government effectiveness, thus being ranked below the regional average of 51.24.⁸⁰ One of the reasons underlying this challenge is the low use of ICT by the government. Thus, Bolivia is ranked in 103rd place out of 193 countries in the United Nations e-Government Survey 2018, with a score of 0.53/1 and with ample room for improving its performance with respect to the regional average.⁸¹ Another reason relates to the country's capacity to produce and disseminate official statistics: Bolivia's score on the World Bank Statistical Performance Index in 2019 is 62.7/100, while the regional average is 60.7/100. It is worth noting that the most recent population and housing census dates from 2012. Being able to use broad-based statistical information on the country can lead to more equitable public policy decisions.⁸² As indicated above, a solid institutional framework has a positive impact on a country's productivity, makes for an efficient execution of public investment, and fosters an increase in private sector participation.
- 3.29 Action proposals, through dialogue, technical assistance, or financing:** (i) contributing to institutional capacity-building through digital transformation of budgetary planning and management, as well as in the design cycle up to and including the construction and delivery of public works; (ii) oversight support through technological innovation, including electronic government, ICT use, and mass use of electronic invoices; (iii) support for strengthening of the integrity, transparency, public information access, and public procurement systems to ensure efficiency and competition; (iv) support for improvements in public investment management, including tools for intelligent cross-referencing of administrative data and mechanisms to strengthen transparency across the full investment cycle; (v) support for actions and technical work by the Ministry of Economy and Finance (MEFP), Comptroller General's Office, and Attorney General's Office to modernize the regulatory instruments; (vi) proposals to train and professionalize the civil service and development of technical and managerial capacities in strategic areas of government; (vii) promoting modernization of the

⁸⁰ World Bank, *Worldwide Governance Indicators 2020*, (Washington, D.C.: World Bank, 2020). <http://info.worldbank.org/governance/wgi/Home/Reports>.

⁸¹ See: <https://publicadministration.un.org/egovkb/en-us/Reports/UN-E-Government-Survey-2018>.

⁸² <https://publications.iadb.org/es/el-valor-de-la-estadistica-oficial-lecciones-desde-las-transferencias-intergubernamentales>.

land registry at the subnational level with a view to collecting property taxes, and development of new instruments for land value appraisal with a view to boosting municipal revenues; (viii) increase in the use of official statistical information in public- and private-sector decision-making by improving the quality of such information in terms of relevance, timeliness, reliability, and accessibility, while at the same time strengthening the institutional structure of the National Statistics Institute (INE). In addition, as is appropriate in view of their crosscutting nature, institutional structure and governance considerations are emphasized in the action proposals set out under the priority pillars, such as in sections 3.11, 3.19, and 3.25.

- 3.30 Climate change and environmental sustainability.** Bolivia is one of the most vulnerable countries in the Andean region to the impacts of climate change. Over the past 100 years, droughts and floods are the events that have most heavily affected Bolivia, resulting in damages of US\$1.5 billion and US\$1.7 billion, respectively.⁸³ The frequency and intensity of these events are projected to rise in the future as a consequence of climate change. The future impacts of climate change are expected to affect primarily the agricultural sector, water resources, hydropower production, health, and biodiversity. Changes in the water cycle are particularly critical in Bolivia due both to the effects of glacier melting on the seasonal water supply and to the country's rugged topography, which can raise the risks associated with heavy rains, floods, and landslides. Bolivia has built an institutional and regulatory framework that links its economic development to the environment.⁸⁴ However, there are significant challenges in terms of effective implementation of this framework, strengthening of the transparency structure, technical and institutional capacities, and ability to respond to climate change impacts and provide climate finance. The effects of climate change also have an impact on internal migration to cities or other ecological tiers, potentially coming into conflict with the host population and with local land use and tenancy practices. At the same time, while Bolivia is vulnerable to climate change, it also has a large potential for investing in nature-based solutions as a key tool to mitigate the effects of climate change.
- 3.31 Action proposals, through dialogue, technical assistance, or financing:** (i) crosscutting support for decarbonization and responsiveness to climate change in harmony with Mother Earth through (ii) support for implementation of Bolivia's NDCs in the country's sector and territorial planning, including dialogue on how to mitigate the challenges arising from the transition to a low-carbon economy and the commitments associated with the NDCs, whose impact is expected to be higher in energy- and hydrocarbon-intensive sectors; (iii) continued help in developing infrastructure for conventional and nonconventional renewable power generation and through electricity transmission; (iv) the introduction of criteria for climate change responsiveness in watershed management and water

⁸³ According to the emergency event database (www.emdat.be).

⁸⁴ The Framework Law on Mother Earth and Comprehensive Development for Living Well (Law 300), enacted in 2012, created the Mother Earth Plurinational Authority as an entity responsible for formulating and implementing the Plurinational Climate Change Policy and Plan for Living Well. In 2016, further legislation created the Sistema de Planificación Integral del Estado [Comprehensive State Planning System] (SPIE), which incorporates risk and climate change management into the territorial and sector development plans. Also in 2016, Bolivia submitted its Nationally Determined Contributions (NDC), which are currently being updated.

infrastructure planning, including the use of planning tools and improvements in climate governance and the development of planning tools such as national green accounts; (v) contributions to productivity increases achieved without expanding the agricultural frontier and natural resource (particularly forest and water) conservation techniques, as well as the use of regenerative agroecological practices, among other initiatives; (vi) climate risk prevention and mitigation systems, including early warning systems for forest fires and droughts; (vii) decarbonization of the productive sector, prioritizing agroindustrial activity and its responsiveness to the effects of climate change; (viii) support for the introduction of standards for certification as a requirement for public works (e.g., EDGE, as a requirement in bidding terms for hospital construction); and (ix) strengthening of the public sector's institutional capacity to incorporate the Bank's Environmental and Social Policy Framework. In addition, as is appropriate in view of their crosscutting nature, climate change response considerations are emphasized in the action proposals set out under the priority pillars, such as in sections 3.11, 3.19, and 3.25.

IV. PROJECTED LENDING FRAMEWORK

- 4.1 **The sovereign-guaranteed lending framework for the 2022-2025 country strategy period is projected at US\$1.648 billion.** Average annual financing needs under the Economic and Social Development Plan 2021–2025 are approximately US\$6.500 billion. The Bank expects average annual approvals for US\$412 million between 2022 and 2025.⁸⁵ Given its concessional rates and the technical support provided in tandem with the operations, designed to ensure a stable disbursement flow and a positive balance between disbursements and debt repayments, this program is consistent with a medium-term fiscal consolidation once the pandemic has been overcome. This approvals level, coupled with the expected average annual disbursements and net flow of loans over the new country strategy period (respectively US\$468 million and US\$327 million), will enable the Bank to maintain its position in the country as the leading multilateral lender. To achieve this level of approvals, the Bank will emphasize its technical support in the priority strategic areas, with greater targeting on the proposed areas of action, while seeking to strengthen its support in the areas of governance and institutional capacity. Larger operations will be given preference (Annex III).
- 4.2 **The Bank is the country's main multilateral agency.** On average over the past five years, IDB debt has accounted for 43% of public sector debt to multilateral agencies, 29% of external debt, and 13% of total public debt. The expected approvals level, coupled with the projected annual disbursements and net flow of loans during the new country strategy period, will enable the Bank to maintain its position in the country as the leading multilateral lender, accounting for about 40% and 30%, respectively, of multilateral financing and external debt.

⁸⁵ These estimates are indicative and may vary; they do not consider the possibility of freeing up resources by redirecting funds in the approved portfolio.

V. STRATEGY IMPLEMENTATION

- 5.1 **Programming considerations.** Based on lessons learned, the IDB Group will focus its support on interventions in priority areas between and within sectors, placing greater emphasis on issues in which the Bank can bring more value added in terms of prior successes in portfolio execution (as in the case of the infrastructure and social services sectors) and/or the potential to substantially contribute to the priority areas of the country's development plan (as in the case of the infrastructure and institutional capacity sectors) to maximize their impact and minimize the cost of preparing and executing projects. The Bank will explore financing options in the form of loans that are disbursed upon the achievement of outputs and complementary support financing for a postpandemic recovery. In addition, the Bank will search for avenues to work in coordination with private sector actors. With regard to the programming of new technical cooperation operations, the Bank will prioritize operations in support of the loan portfolio and operations that have strategic value for dialogue and engagement with the country, seeking to limit their total number and execution time.
- 5.2 **Portfolio execution.** The Bank will seek to move forward on a high-level dialogue with the Bolivian government to diagnose, review, and reduce the execution challenges related to: (i) fiscal restrictions and project counterpart; (ii) high and frequent staff turnover at executing agencies; (iii) strengthening of preinvestment (design and planning of operations); and (iv) limited supply of trained and experienced technical staff. To this end, the following will be undertaken: (i) institutional analyses during the execution of operations, with action plans for each executing agency, enabling the closing of the identified gaps; (ii) effective supervision actions, integrating the project teams into bimonthly portfolio reviews; (iii) remote digital supervision and monitoring tools for infrastructure in development; (iv) macrofiscal monitoring of the status of the treasury single account, so the loan proceeds are available on time at the pace of execution; and (v) technical advisory support for the MEFP for the management of the financial resources of the local counterpart or other sources, so they are available in a timely manner for the subnational governments to complement the Bank-financed projects.
- 5.3 **Coordination within the IDB Group.** The IDB Group will seek to expand coordination between the Bank, IDB Invest, and IDB Lab, based on the following parameters: (i) joint preparation and implementation of this country strategy; (ii) planning of joint missions for engagement with authorities with a view to working in complementary fashion, including joint meetings with the public sector to coordinate operational authorizations and processes; (iii) joint interventions and incentives for multisector action, incorporating the objectives of crosscutting areas, including joint, coordinated participation in public events on technical development considerations; and (iv) organization of joint dialogue, research, or dissemination activities, supported by common challenges in the internal work programs of the IDB Group staff. With a view to supporting private investment in pursuing the strategic objectives set out in the PDES 2021-2025 and this country strategy, the Bank will seek to: (i) support work at the IDB Group level to identify opportunities for private sector participation in the priority areas; (ii) assist in preparing proposals in the institutional or regulatory area, subject to consideration and evaluation by

the relevant authorities, aimed at creating interventions to facilitate appropriate solutions through the private sector; and (iii) prioritize solutions at the IDB Group level to promote innovation through the private sector, including the introduction of new technologies, digital transformation, and scalable opportunities in new markets.

- 5.4 **Donor coordination.** Throughout the 2016-2021 country strategy period, the Bank worked intensively with other multilateral agencies and donors, giving rise to multiple cofinanced interventions as well as coparticipation in knowledge products. The Bank envisages expanding this cooperation work with other entities as well as maintaining its leadership position and its coordination efforts within the Grupo de Socios para el Desarrollo de Bolivia [Bolivia Development Partners Group] (GRUS), of which it is a member. In addition, through the Amazon Initiative, resources will be provided (including by donors) with a view to promoting socioenvironmentally sustainable and inclusive development models and accelerating achievement of the Sustainable Development Goals in communities and territories in Bolivia's Amazon region.
- 5.5 **OVE recommendations.** As part of its Country Program Evaluation: Bolivia 2016-2021, OVE has made the following five recommendations: 1. Delay the approval of a new country strategy until the effects of the COVID-19 pandemic are better understood. 2. During the next country strategy period, continue to support key areas that address long-term development challenges and in which the IDB Group has proven to be a key partner. 3. Through a dialogue with the Government of Bolivia and the other multilateral partners, identify and implement new ways of strengthening institutional capacities at the national and subnational levels, including capacities to ensure infrastructure maintenance. 4. Design projects that fit into the local institutional context and are mutually reinforcing. 5. Jointly (IDB and IDB Invest) consider new ways of deepening support for the private sector, seeking new niches and consolidating those that have already been identified (see Annex V for details).
- 5.6 **Plan to implement the OVE recommendations under the 2022-2025 country strategy.**⁸⁶ With regard to the first OVE recommendation, the Bank requested extending the period of transition from the 2016-2021 country strategy to provide space for a dialogue with the new authorities who took office in the last quarter of 2020 and update knowledge instruments and products to better understand the impact and scope of the pandemic. With regard to the second recommendation, the IDB Group will continue to promote the identification and preparation of new sustainable productive infrastructure projects, social services, and innovative solutions for the country in these areas. With regard to the third recommendation, the IDB Group will use the results of the institutional assessments currently being conducted in the main executing agencies to prepare an institutional strengthening plan jointly with the authorities involved, in addition to providing the technical contributions and financial resources needed to build the institutional capacities of public entities, including operation and maintenance of infrastructure, while taking into account that recovering the institutional capacity levels of 2019 will amount to an initial achievement. With regard to the fourth recommendation, the IDB Group

⁸⁶ Supplementary source: Comments from Management on the Country Program Evaluation: Bolivia 2016-2020 (June 2020).

will efficiently apply the lessons learned in the existing portfolio with respect to projects and sectors involving government institutions at the local and/or various other levels, including technical assistance through the contracting of consultants and specific supports, financial resources, and proactive Bank supervision methods to reinforce the continuity and sustainability of capacities in execution units and entities for Bank-financed projects. With regard to the fifth recommendation, the IDB Group plans to continue to open space for dialogue with various private sector stakeholders who are potential IDB Invest and IDB Lab clients, while at the same time engaging in proactive dialogue with, and knowledge transfer to, the public sector entities that are involved in the approval process for projects with the private sector or can help to remove barriers to external financing for the private sector.

- 5.7 **Country systems.** Regarding the use of fiduciary country systems and based on the Bank's experience in the country and on recent diagnostic assessments and evaluations, no events are anticipated that could adversely affect the use of country systems in Bank-financed operations. On the contrary, progress is expected through the implementation of International Public Sector Accounting Standards (IPSAS), strengthening of the Public Management System (SIGEP), generation of financial reports through the Integrated Project Administration System (SIAP), support for the regulatory procurement reform, and implementation of the action plan following application of the Methodology for Assessing Procurement Systems (MAPS). Regarding the execution of operations, this relies on the procurement system's budget, treasury, accounting, reporting (partially), and information subsystems. In addition, the shopping and individual consultant subsystems have been approved. Their implementation is pending and is expected to occur during the next strategy period. The scope of the planned actions for reinforcing the use of the country systems will depend on the country's strategic priorities, staff continuity, and availability of sufficient resources.
- 5.8 **Other relevant considerations.** In a scenario in Bolivia in which the pandemic and its socioeconomic consequences remain a determining factor in public policies, other dimensions will also continue to exert their influence during this strategy period. In fact, the dynamic political circumstances affect the orientation and makeup of the national and subnational government administration in the country. In this context, implementing this strategy will require the flexibility to recognize new scenarios as they arise in Bolivia and finding synergies with any short- and medium-term actions carried out by the government and other public and private sector stakeholders.

VI. RISKS

- 6.1 **Macrofiscal situation.** There is a possibility that the economic recovery will take longer than expected due to adverse factors associated with the external context and progress of the COVID-19 pandemic. In such a scenario, the country will need to properly manage the growing fiscal deficit, public debt, and international reserves in order to achieve an optimal implementation of its economic policies. This will help mitigate the potential effects of these risks by closely coordinating with the MEFP and the execution units to synchronize the planning of the IDB Group investment programs with the budget cycle. This risk will be monitored.

- 6.2 **COVID-19 pandemic.** There is a risk of community transmission, potential delays in vaccination and periodic boosters, and new COVID-19 outbreaks. As of January 2022, 76% of the population over the age of 18 has received at least one dose of the vaccine, and 63% has received two doses. In addition, 15% of the population aged 5 to 17 has been fully vaccinated and 18% has received the first dose. Until significant vaccination levels (on the order of 75%-80% of the population) are achieved, there is a risk of new waves and infections jeopardizing public health and the health system's capacity to respond. To mitigate this risk, the IDB Group will support Ministry of Health outreach policies designed to promote the benefits of vaccination. In addition, the Bank will support efforts to strengthen the genome control of any COVID-19 variants that may arise in order to contribute to timely decision-making. This risk will be monitored.
- 6.3 **Political context.** There is a risk that the complex political context and the resulting potential for social conflict will set back the recovery and create uncertainty among economic agents and potential governance problems, together delaying economic reconstruction and adversely affecting economic activity and social welfare. This could increase the levels of social conflict in areas in which IDB Group investments take place and could also affect the national investment priorities. To mitigate these risks, the Bank will continue to conduct outreach and dissemination activities on its projects in coordination with the government, civil society, and other stakeholders, providing support for an efficient and transparent application of financial and fiduciary standards and processes. This risk will be monitored.
- 6.4 **Execution.** The main risks include those related to a dearth of counterpart resources for projects; high and frequent staff turnover at the executing agencies; limited preinvestment (operations design and planning) capacity and management; and limited supply of trained and experienced technical staff. To mitigate these risks, the Bank will seek to include new operations with execution arrangements providing for disbursements contingent on the achievement of outputs, promote the formulation and implementation of institutional strengthening plans resulting from the institutional assessments of priority executing agencies, and provide technical assistance through the contracting of consultants and specific supports, financial resources, and proactive Bank supervision methods to reinforce the continuity and sustainability of capacities in execution units and entities for Bank-financed projects. These risks will be monitored.
- 6.5 **Socioenvironmental vulnerability.** The country's vulnerability to climate change and the poverty levels in rural and indigenous areas deepen the potential adverse effects of risks related to climate events, natural disasters, and public health. This could have an impact on areas in which IDB Group investments take place and could also affect national investment priorities. In addition, a potential exacerbation of deforestation and degradation of natural habitats could affect the activities of the three IDB Group windows associated with a sustained use of natural resources. Furthermore, the country could be exposed to risks of various types during the NDC implementation process and the transition to a lower carbon emission economy, including regulatory, technological, market, and reputational risks. To mitigate these risks, the Bank will, in the programming of new operations, seek to foster environmental preservation, responsiveness to climate change, and poverty and inequality reduction. In terms of projects approved by the Bank, particular

attention will be paid to strict compliance with environmental and social safeguards and adoption of the relevant international best practices. These risks will be monitored.

ANNEX I: RESULTS MATRIX AND COUNTRY SYSTEM MATRIX

1. RESULTS MATRIX

Government priorities (Pillars of the PDES-2021-2025)	Priority areas	Strategic objective	Expected outcomes	Indicator	Baseline	Source	
1. Economic reconstruction, regaining macroeconomic and social stability. 3. Security through food sovereignty, promotion of value-added exports, and tourism development. 4. Deepening of the natural resource industrialization process. 7. Judicial reform, digitalized and transparent governance, and security and defense through national sovereignty.	1. Economic reconstruction and boosting productivity ⁸⁷	Help to support economic reconstruction	Postpandemic recovery of the productive fabric in selected sectors	Total credit for micro, small, and medium-sized enterprises (MSMEs) (percentage of the total financial system portfolio)	MSME banks: 42.1% (2019) 41.6% (2020)	Autoridad de Supervisión del Sistema Financiero (Financial System Supervisory Authority) (ASFI) https://www.asfi.gob.bo/images/INT_FINANCIERA/DOCS/Estad%C3%ADsticas/Indicadores/CifrasMensuales.pdf	
				Increase in tourism spending by foreign visitors in (US\$ millions)	US\$837.3 million (2019) US\$191.3 million (2020)	https://www.ine.gob.bo/index.php/estadisticas-economicas/turismo/gasto-de-turismo-receptor-y-emisor-introduccion/	
				Number of households in communities vulnerable to food insecurity that have introduced productive technologies and technical assistance	9,909 (2019) 3,369 (2020)	Project Monitoring Report for BO-L1096 (planned closing year: 2022) https://soberaniaalimentaria.gob.bo/index.php/programas-y-proyectos/iniciativas-agroalimentarias	
		Help to improve the productivity of selected sectors of the economy	Boost family farming productivity	Family farming productivity (metric tons (MT) of tubers per hectare). The data are for the relevant "agricultural year." Sowing begins in August.	4.22 MT/hectare (2018/2019) 4.20 MT/hectare (2019/2020)	https://www.ruralytierras.gob.bo/ Access through the Agroenvironmental Observatory ⁸⁸	
				Contribute to the country's economic integration and productivity	Length of transmission lines in kilometers (km)	8,122.8 km (2018, there are no data for 2019) 8,138 km (2020)	Autoridad de Fiscalización de Electricidad y Tecnología Nuclear [Electricity and Nuclear Power Oversight Authority] (AETN) (Statistical annual report for 2019 and 2020; https://www.aetn.gob.bo/web/main?mid=1&cid=82)

⁸⁷ To the extent that data are available, prepandemic (2018 or 2019) and 2020 measurements will be included so as to capture the objective of economic reconstruction. The 2020 figure is included as a reference, but the objective is to at least recover the prepandemic levels (2019).

⁸⁸ This indicator is calculated on the basis of yield of Andean tubers in metric tons per hectare (sweet potato, *hualiza*, oca, potato, and yellow potato (*papaliza*)).

Government priorities (Pillars of the PDES-2021-2025)	Priority areas	Strategic objective	Expected outcomes	Indicator	Baseline	Source
		Support the digital transformation	Boost the connectivity infrastructure and internet access	Affordability (\$/Mbps) of the fixed broadband internet access service. ⁸⁹	6.21 \$/Mbps (2019) 4.56 \$/Mbps (2020)	IDBA (IDB's Broadband Development Index)
2. Industrialization through import substitution. 7. Judicial reform, digitalized and transparent governance, and security and defense through national sovereignty.	2. Diversification of production	Support diversification of production in selected sectors	Foster the diversification of productive sectors	Primary exports (percentage of total exports)	90.6% (2020)	ECLAC https://statistics.cepal.org/portal/cepalstat/dashboard.html?indicator_id=1910&area_id=652&lang=es
			Technified development in the agricultural sector	Area under irrigation (thousands of hectares).	519,600 hectares under irrigation (2020)	https://www.miriego.gob.bo/
		Support startups associated with knowledge, innovation, science, and technology	Incorporation of innovations in business processes to enable businesses to achieve higher productivity	Growth of innovative companies	Score 36.1/100 (2019)	WEF, Global Competitiveness Report 2019
		Help to foster trade	Increase in the volume of foreign trade	Volume of exports as a percentage of GDP	25% (2019)	World Development Indicators
				Trade openness	50.8%/100 (2019)	WEF, Global Competitiveness Report 2019
		Help to foster logistic competitiveness, development hubs, and integration	Improvements in safe transportation infrastructure (ground, river, airport) to facilitate logistics innovation	Safe kilometers built and/or rehabilitated	8,401 km (2020)	INE https://www.ine.gob.bo/index.php/estadisticas-economicas/transportes/longitud-de-caminos-cuadros-estadisticos/
				Square meters of airports rehabilitated under operational safety standards (terminal, runway, platform)	Terminal: 131,000 m ² Platform: 460,000 m ² (2019) Runway length: 89 km (2020)	INE https://www.ine.gob.bo/index.php/estadisticas-economicas/transportes/infraestructura-vial-cuadros-estadisticos/
				Square meters of waterways improved	Dock: 1,151 m ² Infrastructure: 34,978 m ² (2020)	INE https://nube.ine.gob.bo/index.php/s/AJGEW4srPdiOb1o/download

⁸⁹ The affordability indicator is built using the price (RG-MBFP) and speed (IN-VBAX) variables, and is calculated as shown in the IDBA.

Government priorities (Pillars of the PDES-2021-2025)	Priority areas	Strategic objective	Expected outcomes	Indicator	Baseline	Source
1. Economic reconstruction, regaining macroeconomic and social stability	3. Inclusive and sustainable social development	Help to boost universal access to quality basic and social services	Increase in coverage and quality of sanitation, water, and drainage, and improvements in solid waste treatment	Percentage of the population with access to water (disaggregated into urban and rural)	Urban: 94.6% Rural: 68.7% (2020)	Office of the Deputy Minister of Water and Basic Sanitation (VAPSB), under the Ministry of Environment and Water (MMAyA)
				Percentage of the population with access to improved sanitation (disaggregated into urban and rural)	Urban: 70.6% Rural: 45.0% (2020)	Office of the Deputy Minister of Water and Basic Sanitation (VAPSB), under the Ministry of Environment and Water (MMAyA)
			Expansion of electricity coverage	Coverage of basic electricity service in rural areas	83.5% (2021)	Ministry of Hydrocarbon and Energy https://www.mhe.gob.bo/wp-content/uploads/2021/04/INFO-RME-RPCI-2021.pdf
			Improvements in coverage of health care services	Beds / 1,000 inhabitants	1.3 (2017)	World Bank
			Improvements in the quality of health care services delivery	Percentage of assisted childbirths in health care facilities (hospitals and health centers)	68.30% (2020)	Sistema Nacional de Información en Salud [National Health Information System] (SNIS)
				Percentage of pregnant women who receive at least four prenatal obstetric checkups	44.20% (2020)	SNIS
				Public hospitals with electronic medical records implemented	0 (2020)	Specific SNIS report
			Improvements in urban environment, good-quality public spaces, and inclusive mobility	Square meters of inclusive public parks	0 (2020)	Municipal Autonomous Government of La Paz
				Improvements in the accessibility and affordability of sustainable urban transportation for the population	Percentage of passengers who use the mass public transit system	15.08% (2019) Calculated on the basis of the statistics for Mi Teleférico and La Paz Bus INE – Passengers transported by the cable-car transportation system (source: https://nube.ine.gob.bo/index.php/s/otwIELD2kVvCDO_/download) and Memoria de Gestión La Paz Bus 2019 http://www.lapazbus.bo/memoria/mobile/index.html#p=148)

Government priorities (Pillars of the PDES-2021-2025)	Priority areas	Strategic objective	Expected outcomes	Indicator	Baseline	Source
		Boost formal and quality employment	Improvements in the employability of job seekers	Percentage of beneficiaries of job training programs who succeed in entering the labor market at the time of conclusion and up to one month following onsite training	62.94% (2019)	Monitoring system of the Ministry of Labor, Employment, and Social Security's Office of Employment
				Percentage of women beneficiaries of job training programs who succeed in entering the labor market at the time of conclusion and up to one month following onsite training	60.17% (2019)	Monitoring system of the Ministry of Labor, Employment, and Social Security's Office of Employment
				Percentage of persons with disabilities who are beneficiaries of job training programs and succeed in entering the labor market at the time of conclusion and up to one month following onsite training	39.09% (2019)	Monitoring system of the Ministry of Labor, Employment, and Social Security's Office of Employment
		Help strengthen the social protection system	Improvements in the coverage of social protection networks	Coverage level of social protection programs (Renta Dignidad, Bono Juancito Pinto voucher, and Bono Juana Azurduy). Calculated as number of beneficiaries divided by eligible population	84% (2019)	UDAPE https://www.udape.gob.bo/
			Improvement in the management efficiency of social protection networks	Percentage of payments to beneficiaries of conditional cash transfers under the Bono Juana Azurduy program and to unconditional cash transfer beneficiaries without a pension under the Renta Dignidad program in the form of bank account deposits	0% (2020) (under the Renta Dignidad program for individuals without pension and under the Bono Juana Azurduy program)	Records of the Long-term Social Security Administrator at the Ministry of Economy and Public Finance (MEFP)

Government priorities (Pillars of the PDES-2021-2025)	Crosscutting issues	Strategic objective	Expected outcomes	Indicator	Baseline	Source
1. Economic reconstruction, regaining macroeconomic and social stability	Gender and diversity	Improve gender and diversity conditions	Reduce extreme poverty in the indigenous and Afro-descendant populations	Extreme poverty rate in individuals belonging to indigenous and Afro-descendant populations	33% (2013)	INE, Household Survey
			Increase financing to support greater gender equality and diversity	Percentage of gender-aligned IDB Group loans Percentage of diversity-aligned IDB Group loans	72% (2016-2020)	IDB Group
			Support for preventing and addressing violence against women	Number of vulnerable individuals served by promoting their rights	52,529 (2019)	Ministry of Justice
7. Judicial reform, digitalized and transparent public governance, and security and defense through national sovereignty	Institutional capacity and rule of law	Help to build institutional capacities	Help in training and professionalizing strategic government areas	Number of public servants certified in digital management	1,000 public servants (2020) ⁹⁰	Massive online open course (MOOC) on digital government by the IDB
			Expand access to official statistical data	Open Data Watch indicator	49 (only available for 2018) 48/100 points (2020)	Source: Open Data Watch https://odin.opendatawatch.com/Report/countryProfileUpdated/BOL?year=2020
			Help to build the capacity of the statistics system	Total score on the Statistical Performance Indicators	62.7 out of 100 points (2019)	Statistical Performance Indicators (SPI) https://www.worldbank.org/en/programs/statistical-performance-indicators
8. Sustainable and balanced environment in harmony with mother earth	Climate change and environmental sustainability	Foster environmental sustainability, climate change adaptation, and implementation of the Nationally Determined Contributions (NDC)	Increase climate finance	Average climate finance for the period	38% of the amount approved (2016-2020)	BID Climate Finance Database CCS https://tableaubi.iadb.org/view/s/ClimateChange/TimelineCF?iframeSizedToWindow=true&embed=y&showAppBanner=false&display_count=no&showVizHome=no#1

⁹⁰ The MOOC was launched in 2020; therefore, there is no baseline for 2019.

Government priorities (Pillars of the PDES-2021-2025)	Crosscutting issues	Strategic objective	Expected outcomes	Indicator	Baseline	Source
			Contribute to the development of renewable energy infrastructure through an energy transition	Percentage of energy from renewable sources in the generation matrix of the Sistema Interconectado Nacional [Interconnected National System] (SIN) and stand-alone systems ⁹¹	35.8% (2019) 35.7% (2020)	AETN (Anuario estadístico, 2018, 2019, and 2020; https://www.aetn.gob.bo/web/main?mid=1&cid=82)
			Incorporate climate response criteria into watershed management and planning of water infrastructure	Area targeted through comprehensive watershed management techniques that incorporate climate change (km ²)	32,542 km ² (2020) ⁹²	Results matrix of the National Watershed Plan (Deputy Ministry of Water Resources and Irrigation)
			Reduce economic losses due to extreme annual events in prioritized microwatersheds	Number of households protected against flood and landslide risks	1,115 (2019) 4,131 (2020)	Municipal risk management units (La Paz, El Alto, Cochabamba, others)

⁹¹ The indicator is calculated as the sum total of gross generation of hydroelectric and alternative power, the latter including wind, solar, biomass, and photovoltaic power.

⁹² There are no data (2019) since this is a new indicator arising from the PDES 2021-2025; previously, it was measured in terms of targeted watersheds rather than in terms of area.

2. COUNTRY SYSTEM MATRIX

Use of country systems	Baseline 2020	Estimated use 2025	Planned actions (during the country strategy period)
Budget	100%	100%	Monitor operation of the SIGEP.
Treasury	100%	100%	
Accounting and reporting	70%	90%	Assistance, support, and monitoring of SIAP implementation.
Internal audit	0%	0%	Continue the outreach and dialogue with authorities to move forward on strengthening actions.
External control	0%	0%	
Procurement: • Information system	100%	100%	Continue to monitor the effectiveness of the State procurement system (SICOES) as a means for disseminating invitations to bid and results of bidding processes. Strengthen the national and international advertising media.
• Shopping	0%	25%	Continue dialogue with the government to support strengthening actions aimed at achieving the expected indicator targets.
• Individual consultants	0%	25%	
• Partial NCB	0%	0%	No actions are expected.
• Advanced NCB	0%	0%	

ANNEX II: ECONOMIC AND SOCIAL INDICATORS

	2016	2017	2018	2019	2020
Real sector					
Annual real GDP growth (%) ⁽ⁱ⁾	4.3	4.2	4.2	2.2	-8.8
Per capita GDP (US\$) ⁽ⁱ⁾	3,112	3,390	3,589	3,578	3,155
Annual real GFCF growth (%) ⁽ⁱ⁾	3.4	11.8	3.2	-3.5	-26.0
Annual household consumption growth (%) ⁽ⁱ⁾	3.4	4.7	4.3	3.7	-8.1
Unemployment rate (%) (annual average) ⁽ⁱ⁾	4.7	5.1	4.9	5.2	8.3
Public sector					
Nonfinancial public sector (NFPS) revenue (% of GDP) ⁽ⁱⁱ⁾	43.0	40.2	38.7	37.9	32.5
of which, revenue from hydrocarbons (%) ⁽ⁱⁱ⁾	32.1	32.1	34.8	34.6	37.9
NFPS expenditure (% of GDP) ⁽ⁱⁱ⁾	50.2	48.1	46.8	45.1	44.7
NFPS overall balance (% of GDP) ⁽ⁱⁱ⁾	-7.2	-7.8	-8.1	-7.2	-12.2
NFPS primary balance (% of GDP) ⁽ⁱⁱ⁾	-6.5	-7.0	-7.2	-6.3	-11.1
Public debt (% of GDP) ^{(ii) (iii)}	47.2	51.9	53.7	59.1	78.8
Monetary and exchange rate					
Annual inflation (%) (end of period) ⁽ⁱ⁾	4.0	2.7	1.5	1.5	0.7
Nominal exchange rate (Bs/US\$ - period average) ⁽ⁱⁱⁱ⁾	6.96	6.96	6.96	6.96	6.96
Real exchange rate (period average, 2003=100) ⁽ⁱⁱⁱ⁾	62.7	64.1	62.4	60.2	57.8
Financial					
Credit to the private sector (% of GDP) ⁽ⁱⁱⁱ⁾	49.4	52.3	54.4	57.2	66.6
Financial system assets (% of GDP) ⁽ⁱⁱⁱ⁾	75.8	78.2	81.8	87.8	111.2
External sector					
Trade balance (% of GDP) ⁽ⁱⁱⁱ⁾	-7.4	-5.8	-4.9	-4.1	-2.2
Current account (% of GDP) ⁽ⁱⁱⁱ⁾	-5.6	-5.0	-4.3	-3.4	-0.5
Foreign direct investment (% of GDP) ⁽ⁱⁱⁱ⁾	0.7	1.7	1.0	-0.6	-2.8
Social					
Poverty (%) ⁽ⁱ⁾	43.0	42.2	39.9	37.2	39.0
Extreme poverty (%) ⁽ⁱ⁾	19.0	18.4	15.3	12.9	13.7
Gini ⁽ⁱ⁾	0.46	0.46	0.43	0.42	0.45

Sources: (i) National Statistics Institute (INE), (ii) Ministry of Economy and Public Finance (MEFP), (iii) Central Bank of Bolivia (BCB). Note: The total public debt figures include loans from the Central Bank to state-owned enterprises and may differ from the official government calculations, which include the profits of strategic public enterprises and the massive investments projected by the country.

ANNEX III: INDICATIVE LENDING SCENARIO 2022-2025

(in US\$ millions and percentage)

Item	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total 2016-2021	Average 2016-2021	Total 2022-2025	Average 2022-2025
Approvals	681	414	625	200	580	500	148	500	500	500	2,999	500	1,648	412
Disbursements	355	501	381	506	498	200	857	327	347	341	2,441	407	1,871	468
Principal	26	33	43	57	68	29	103	116	169	175	255	43	562	140
Net flows	329	467	338	449	457	171	754	211	178	166	2,213	369	1,309	327
Subscriptions and contributions	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net flow of loans	329	467	338	449	457	171	754	211	178	166	2,213	369	1,309	327
Interest and fees	50	61	74	90	90	27	93	93	90	86	393	65	362	90
Repayment	76	95	116	147	158	56	196	209	259	260	648	108	923	231
Net cash flow	279	406	265	359	340	144	661	118	88	80	1,793	299	947	237
Financing needs	3,294	3,904	4,411	4,233	6,363	7,162	4,381	4,600	4,522	4,673		4,894		4,544
% GDP	9.6	10.3	10.9	10.3	17.3	18.6	10.7	10.5	9.6	9.3		13		10
IDB debt	2,097	2,567	2,905	3,355	3,812									
Multilateral debt	5,283	6,160	6,726	7,484	8,276									
External debt	7,268	9,428	10,178	11,268	12,172									
Total debt	16,134	19,599	21,809	24,360	29,040									
IDB debt/Financing needs	64%	66%	66%	79%	60%									
IDB disbursements/Financing needs	10.8%	12.8%	8.6%	12.0%	7.8%									
IDB debt/Multilateral debt	39.7%	41.7%	43.2%	44.8%	46.1%									
IDB debt/External debt	28.9%	27.2%	28.5%	29.8%	31.3%									
IDB debt/Total debt	13.0%	13.1%	13.3%	13.8%	13.1%									

Source: Approvals, disbursements, principal, net flow, subscriptions and contributions, interest and fees, repayment, and net cash flow were obtained from FINSOL-IDB data. The data are for sovereign debt. Financing needs were calculated using data from the Central Bank of Bolivia (BCB), Ministry of Economy and Public Finance (MEFP), and International Monetary Fund (IMF) (April 2021 WEO). The data on debt were obtained from the BCB and IMF (April 2021 WEO).

Note 1: Approval figures were obtained from FINSOL 2016-2020 and calculations of potential demand 2021-2025. The 2022 amount (and thereafter) may vary depending on the country's needs and possibilities of Bank financing (and do not consider the possibility of freeing up resources through redirection of the approved portfolio).

Note 2: Disbursement figures were obtained from the scenario based on portfolio + new portfolio.

Note 3: For total debt, from 2021, data from the April 2021 WEO.

ANNEX IV: DEVELOPMENT EFFECTIVENESS MATRIX (SUMMARY)

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX	
In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN2489) 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: BOLIVIA 2022-2025	
STRATEGIC ALIGNMENT <i>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.</i>	
EFFECTIVENESS <i>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.</i>	
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 corresponding policy recommendations	100%
III. Results matrix**	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis	100%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	100%
IV. Vertical logic	Yes/No
- The CS has vertical logic	Yes
* This analysis includes any potential diagnostic document used to inform .	
** The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expected results stem from the strategic objectives.	

ANNEX V: MANAGEMENT’S RESPONSE TO THE RECOMMENDATIONS IN THE COUNTRY PROGRAM EVALUATION (CPE) 2016-2021

I. Introduction

I.1 The Management teams of the Bank and IDB Invest thank the Office of Evaluation and Oversight (OVE) for its work preparing the Country Program Evaluation: Bolivia 2016-2020, the findings of which will be considered in the formulation and implementation of the new IDB Group strategy with the country currently in preparation. Below are Management’s responses to OVE’s recommendations.

II. Management’s response to the recommendations:

OVE recommendation	Management response
<p>Recommendation 1: Delay the approval of a new country strategy until the effects of the COVID-19 pandemic are better understood. Given that the magnitude of the health, social, and economic impacts of the COVID-19 pandemic are still unknown in Bolivia, OVE recommends that the IDB Group refrain from agreeing with the government on a new country strategy until the magnitude of the pandemic’s impact becomes clearer. Instead, OVE recommends that the IDB Group extend the term of the current country strategy and include in its request for an extension a one-year roadmap summarizing its support response.</p>	<p>Agreed</p> <p>Management agrees with OVE on the relevance of postponing the approval of a new country strategy, in particular due to the deferral of the election cycle caused by the pandemic’s impact, which will affect the timeline for dialogue with the country’s officials, as well as with the future elected government.</p> <p>In this regard, the IDB Group is updating a number of instruments and knowledge products that will contribute to the analysis of the impact and scope of the health crisis in Bolivia’s current economic context, which will be used to inform the preparation of the new country strategy. In turn, it should be noted that the following pillars identified in the Country Development Challenges (CDC): (i) institutional and fiscal strengthening; (ii) preserving and deepening social achievements; and (iii) promoting productivity growth, would be prioritized, considering that both in the current context and after the pandemic, they will remain relevant.</p> <p>In this sense, Management is considering the possibility of an extension of the current strategy for up to one year, until 31 January 2022. This extension will provide space for an exhaustive dialogue with the new authorities. Although the term of this extension is broad, work will be done to have the new country strategy approved prior to this date.</p>

OVE recommendation	Management response
<p>Recommendation 2: During the next country strategy period, continue to support key areas that address long-term development challenges and in which the IDB Group has proven to be a key partner. Infrastructure bottlenecks continue to pose development challenges in Bolivia. Through its continuous assistance in this area, the IDB Group is well positioned to continue to support Bolivia in the water and sanitation, energy, and transportation sectors.</p>	<p>Agreed</p> <p>Proposed actions: Management agrees with OVE on the importance of continuing to support key areas that address long-term development challenges and in which the IDB Group has proven to be a key partner, such as the physical infrastructure sectors of energy, water and sanitation, and transportation. The CDC document identifies promoting productivity growth as one of the priority development challenges in Bolivia, as well as the relevant role that infrastructure plays therein. The IDB Group will continue to promote the identification and preparation of new sustainable infrastructure projects and interventions to address the problem from a perspective aimed at increasing productivity, quality employment, and improved economic and social conditions in the country, with emphasis on maintaining infrastructure and promoting PPPs.</p>
<p>Recommendation 3: Through a dialogue with the Government of Bolivia and the other multilateral partners, identify and implement new ways of strengthening institutional capacities at the national and subnational levels, including capacities to ensure infrastructure maintenance. While this was a recommendation of the previous CPE, in this CPE we identify the persistence of challenges in this regard (see Annex I – Recommendation 1 in the previous CPE).</p>	<p>Agreed</p> <p>Proposed actions: The IDB Group will continue to promote dialogue and provide the technical contributions and financial resources needed to build the capacities of public entities at the national and local levels. It should be noted that both constitute challenges for public management in the country, and their resolution exceeds the term and scope of the country strategy. Hence, the importance of the IDB Group’s work and support through a combination of financial and nonfinancial instruments and/or specific interventions, as well as coordination with other donors. The IDB Group will continue to include, from the design stage, actions enabling a commitment to maintaining the infrastructure to be financed and the strengthening of the execution units’ institutional capacity, based on institutional capacity assessments done during preparation of the operations. The efforts to improve management will continue to focus on three differentiated pillars: (i) strengthening and reinforcement of management capacities to promote more efficient and effective execution of the projects financed in the country; (ii) longer-range interventions to improve public management capacity in specific sectors; and (iii) policy-based operations that aim to have an impact on public policy formulation, planning, management, and evaluation capacities in the country.</p>

OVE recommendation	Management response
	<p>In Bolivia, international cooperation provides a wide range of proposals to support public management capacity-building. The IDB Group is moving forward with an intensive dialogue in this area, where it has reached numerous agreements on coordination and cofinancing.</p>
<p>Recommendation 4: Design projects that fit into the local institutional context and are mutually reinforcing. To avoid the recurrent issues that have adversely affected execution, the design of projects should take into account the relatively limited technical capacity of most executing agencies and the experience acquired in previous projects.</p>	<p>Agreed</p> <p>Proposed actions:</p> <p>The CDC, as part of the preparation for the new country strategy, identifies institutional strengthening as a central challenge for Bolivia's development. Therefore, in its dialogue with the government, the IDB Group will promote technical and financial support to contribute in this area. In the new country strategy, the IDB Group will deepen the Bank's support for strengthening the technical and management capacities of public entities, particularly at the local government level.</p> <p>With respect to factors that have impacted portfolio execution in Bolivia, it is important to consider the high turnover of technical and management staff at the execution units and entities, compounding the limited availability of technical professionals in the local market.</p> <p>In response to this situation and to counter the institutional weaknesses in the execution of projects in the portfolio, the contracting of consultants and specific supports stand out with a view to achieving continuity and sustainability in execution units and entities for Bank-financed projects.</p> <p>The IDB Group has made progress in gradually building capacity in various sectors of the portfolio, by boosting the availability of tools, standards, and training.</p> <p>In this line, through policy-based operations, capacities are strengthened and supported in planning, regulation, oversight, and control in the management of transportation infrastructure (BO-L1112). In water and sanitation, sector performance evaluation instruments have been updated, and monitoring and evaluation systems have been consolidated in priority areas; this enables the design of better public policies and prioritizes proper execution of investment projects (BO-L1200).</p>

OVE recommendation	Management response
	<p>In order to improve investment planning and management of water resources for irrigation, plans were made to implement a guide for supervision of preinvestment and investment in irrigation projects, training on techniques in project formulation with a program approach, guides for evaluating performance of the irrigation subsector, and management of water resource information systems by the departmental governments (BO-L1106).</p> <p>The IDB Group is committed to continue working to consolidate and strengthen public sector management capacities, which will be actively promoted from the design stage of projects, so that their scopes and targets are consistent with the expected execution capacities, capitalizing on lessons learned, and incorporating the strengthening measures necessary to develop these capacities.</p>
<p>Recommendation 5: Jointly (IDB and IDB Invest) consider new ways of deepening support for the private sector, seeking new niches and consolidating those that have already been identified (see Annex I - Recommendation 4 in the previous CPE). With a view to creating more opportunities to support private businesses, the IDB and IDB Invest should work together and in collaboration with the Government of Bolivia to identify the challenges faced by the private sector and how each part of the IDB Group can help to overcome them, for example by addressing structural reforms to improve the business climate and encourage private investment.</p>	<p>Agreed</p> <p>Proposed actions:</p> <p>It is important to note that steps have already been taken in that direction, opening space for dialogue with various private sector stakeholders, and permanent IDB Invest staff have been included in the Country Office to deepen these objectives and efforts.</p> <p>Moreover, in a joint effort by the IDB and IDB Invest to promote and increase the structuring of non-sovereign guaranteed operations in Bolivia, an agreement was reached with the Central Bank of Bolivia (BCB) on adjusting the rate for transfers abroad for multilateral institutions. This decision was made after extensive negotiations between the IDB Group and the BCB, which resulted in agreement on a mechanism that safeguards the integrity of the country's international reserves while at the same time eliminating operational risks for IDB Invest.</p> <p>With respect to seeking out new niches and consolidating those already identified, options will be explored to replicate solutions developed and tested by IDB Invest and IDB Lab that have worked in other countries and adapt them to the market. In line with the scale of the market and the country's economic context, active collaboration with IDB Lab's instruments will also be required. IDB Lab has a significant presence in Bolivia with plans to expand its reach. These efforts will be aligned with the current Business Plan and the strategic guidelines defined in IDB Invest's response to the COVID-19 crisis, as applicable, based on the country's business environment.</p>