

**THE NETHERLANDS  
PROGRAMME AID  
TO BOLIVIA**

**Policy and Operations Evaluation Department, Ministry of Foreign Affairs**

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# Preface

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This report presents the results of a study of the Netherlands' programme aid to Bolivia during the 1982–95 period. The study is a component of an overall evaluation of Dutch development assistance to Bolivia. Programme aid amounted to Dfl. 243 million, being nearly one third of all aid by the Netherlands to Bolivia.

When democracy was re-established in Bolivia in 1982, the Netherlands provided balance of payments support to assist the new democracy. Fertilizers and medicines were donated first, followed by other categories of programme aid, such as debt relief and sectoral budget support, once Bolivia embarked on its economic reform programme.

The study examined three different instruments:

- balance of payments support through commodity aid;
- balance of payments support through contributions to relieve the external official debt;
- sectoral budget support for the social funds.

The objectives of programme aid have changed over time, from providing rapid balance of payments support to an instrument in support of macroeconomic policy. Both macro and micro-level analyses were carried out.

The report consists of four main parts. The first part provides a contextual framework outlining the economic development of Bolivia and its structural adjustment programme in particular. The second part presents an evaluation of the import support programme, with particular reference to medicines and fertilizers. Thirdly, the contributions to debt relief are evaluated, focusing on the buy-back of commercial debt; and fourthly, the support provided to the social (investment) funds is analysed.

The study was conducted by the Policy and Operations Evaluation Department (IOB), an independent department within the Ministry of Foreign Affairs responsible for evaluating foreign policy and in particular development aid provided by the Netherlands government.

It was directed by Georg Frerks of the IOB and coordinated and elaborated by Willem Cornelissen of the Netherlands Economic Institute.

The study was assisted by two advisory groups, one in Bolivia and one in the Netherlands, comprising government authorities and external experts, which commented on the terms of reference and the consultancy reports of the various studies. The contents of the report, however, are the sole responsibility of IOB.

*Director, Policy and Operations Evaluation Department*

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# Abbreviations

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ACAP	<i>Almacén Central Agrícola y Pecuario</i> (Central Agricultural and Livestock Warehouse)
BAB	<i>Banco Agrícola de Bolivia</i> (Agricultural Bank of Bolivia)
BCB	<i>Banco Central de Bolivia</i> (Central Bank of Bolivia)
BEMO	<i>Beoordelingmemorandum</i> (Appraisal Memorandum)
Bs	Bolivianos (national currency of Bolivia)
CAF	<i>Corporación Andina de Fomento</i> (Investment Corporation of the Andes Pact)
CEASS	<i>Central de Abastecimiento de Suministros</i> (Office for the Provision of Supplies)
CEDLA	<i>Centro de Estudios para el Desarrollo Laboral y Agrario</i> (Study Centre for Labour and Agricultural Development)
c&f; cif	cost and freight; cost, insurance, freight
CIP	Commodity Import Programme
CIPCA	<i>Centro de Investigación y Promoción del Campesinado</i> (Centre for Research and Advancement of the Peasantry)
COB	<i>Central Obrera Boliviana</i> (Bolivian Central Labour Union)
CORACA	<i>Corporación Agropecuaria Campesina</i> (Peasant Agricultural Corporation)
CORDE. . .	<i>Corporación Regional de Desarrollo de. . .</i> (Regional Development Corporation of . . .)
CSUTCB	<i>Confederación Sindical Unica de Trabajadores Campesinos de Bolivia</i> (Syndicalist Confederation of Peasant Workers of Bolivia)
DAC	Development Assistance Committee of the OECD
DAME	<i>Departamento de Abastecimientos Médicos</i> (Department of Medical Supplies)
DAP	Di-Ammonium Phosphate
DGIS	<i>Directoraat Generaal Internationale Samenwerking</i> (Directorate General for International Cooperation )
DIFEM	<i>Dirección de Financiamiento Externo y Monetización</i> (Office of External Financing and Monetization)
DMP	Multilateral Development Cooperation and Special Programmes Department
EAP	Economically Active Population
EDT	External Debt Total
ERS	Export Retention Scheme
ESAF	Enhanced Structural Adjustment Facility
ESC	Eligible Source Countries
FAO	Food and Agriculture Organization of the United Nations
FDC	<i>Fondo de Desarrollo Campesino</i> (Smallholder Development Fund)
FIS	<i>Fondo de Inversión Social</i> (Social Investment Fund)

fob	free-on-board
FONAMA	<i>Fondo Nacional para el Medio Ambiente</i> (National Environment Fund)
FONPLATA	<i>Fondo de Desarrollo de la Cuenca del Río de la Plata</i> (Development Fund for the Rio Plata Basin)
FSE	<i>Fondo Social de Emergencia</i> (Social Emergency Fund)
GDP	Gross Domestic Product
GNP	Gross National Product
HIPC	Highly Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
IBTA	<i>Instituto Boliviano Tecnológico Agropecuario</i> (Bolivian Institute for Agricultural Technology)
ICB	International Competitive Bidding
IDA	International Development Association
IDA	International Dispensary Association
IDB	Inter-american Development Bank
IFAD	International Fund for Agricultural Development
IME	<i>Insumos Médicos Esenciales</i> (Essential Drugs Supplies)
IMF	International Monetary Fund
IOB	Policy and Operations Evaluation Department (previously IOV—Operations Review Unit)
K	Potash
LAB	<i>Lloyd Aéreo Boliviano</i> (Lloyd Bolivian Airline)
LDOD	Total Long-term Debt Outstanding and Disbursed, including IMF charges
MACA	<i>Ministerio de Asuntos Campesinos y Agricultura</i> (Ministry of Smallholder Affairs and Agriculture)
MCTH	<i>Misión de Cooperación Técnica Holandesa</i> (Netherlands Mission for Technical Cooperation )
MGS	Imports of Goods and Services
MNR	<i>Movimiento Nacionalista Revolucionaria</i> (political party)
MPSSP	<i>Ministerio de Previsión Social y Salud Pública</i> (Ministry of Social Security and Public Health Care)
mt	metric tonnes
NCM	<i>Nederlandsche Credietverzekerings Maatschappij</i> (Netherlands Credit Insurance Society)
NEP	New Economic Policy
NMB	<i>Nederlandse Middenstands Bank</i> (NMB Bank)
N	Nitrogen
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OGIL	Open General Import Licence
OPEC	Organization of Oil Exporting Countries
P	Phosphorus
PAHO (OPS)	Pan American Health Organization ( <i>Organización Panamericana de Salud</i> )
PNMEBOL	<i>Programa Nacional de Medicamentos Esenciales en Bolivia</i> (National Programme of Essential Drugs in Bolivia)

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PROISS	<i>Programa de Inversiones en Servicios de Salud</i> (Investment Programme for Health Services)
PV	Present Value
S	Sulphur
SIPFE	<i>Secretaría de Inversión Pública y Financiamiento Externo</i> (Secretariat for Public Investment and External Financing)
SNAG	<i>Secretaría Nacional de Agricultura</i> (National Secretariat for Agriculture)
SNS	<i>Secretaría Nacional de Salud</i> (National Secretariat for Health)
TAM	<i>Transportes Aereos Militares</i> (Military Airline)
TDS	Total Debt Service on long-term debt
TGN	<i>Tesoro General de la Nación</i> (National Treasury)
UDAPE	<i>Unidad de Análisis de Políticas Económicas</i> (Economic Policy Analysis Unit)
UDAPSO	<i>Unidad de Análisis de Políticas Sociales</i> (Social Policy Analysis Unit)
UNDP (PNUD)	United Nations Development Programme ( <i>Programa de las Naciones Unidas para el Desarrollo</i> )
UNICEF	United Nations Children's Fund
US\$	United States dollar
USAID	United States Agency for International Development
VCR	Value Cost Ratio
VIB	<i>Voedselvoorzienings In-, en Verkoop Bureau</i> (the Food Supplies Purchasing and Sales Section of the Ministry of Agriculture, Nature Management and Fisheries)
WHO	World Health Organization
XGS	Exports of Goods and Services
YPFB	<i>Yacimientos Petrolíferos Fiscales Bolivianos</i> (Bolivian Oil Company)



# Exchange rates

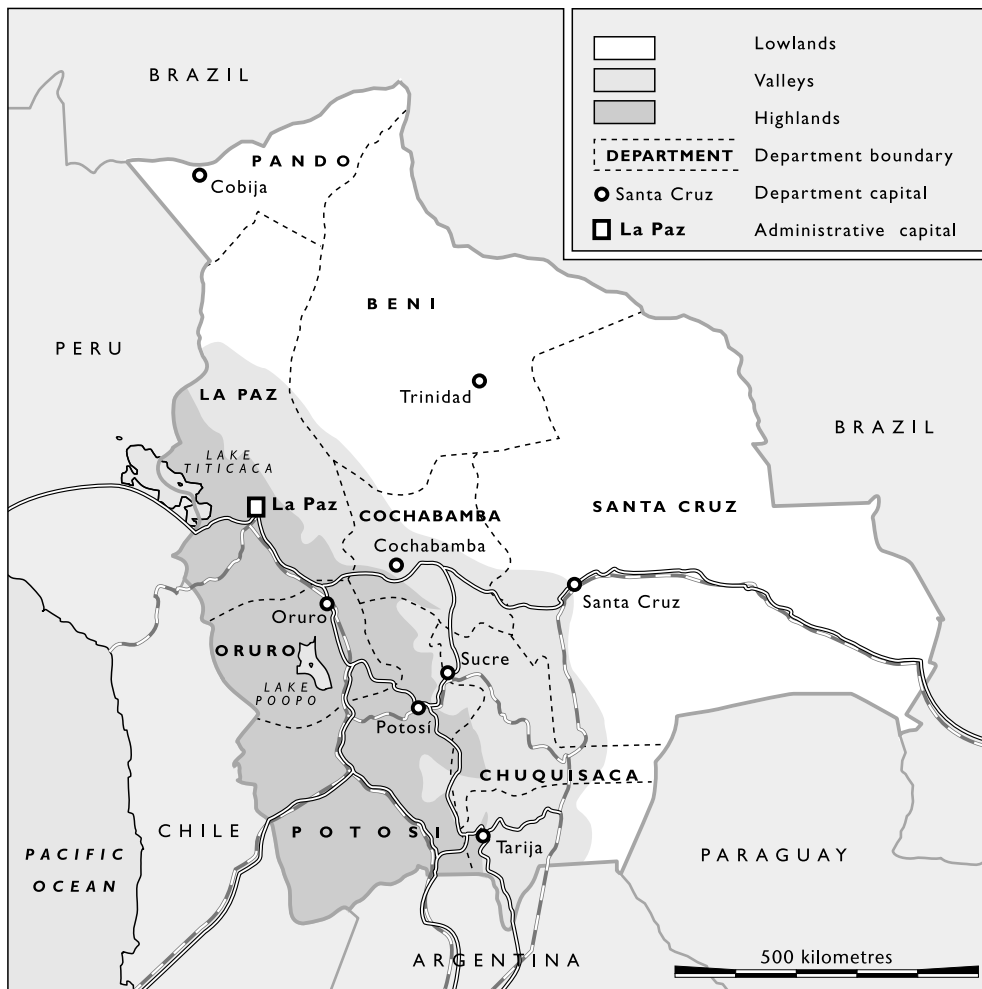
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## Foreign currency exchange rates

(in pesos/bolivianos and Dutch guilders per US dollar)

<b>Year</b>	<b>Bolivianos per US dollar</b>	<b>Dfl. per US dollar</b>
1985	1.692.000.00	3.32
1986	1.923.000.00	2.45
1987	2.21	2.02
1988	2.47	1.97
1989	2.98	2.12
1990	3.40	1.89
1991	3.75	1.87
1992	4.10	1.76
1993	4.48	1.86
1994	4.62	1.82
1995	4.88	1.61

Sources: Central Bank of Bolivia and the Netherlands Ministry of Foreign Affairs.



**Map of Bolivia**



# Summary and main findings

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## 1 Introduction

Bolivia's transition from military rule to democracy (1982) was followed by a severe economic and monetary crisis (1982–85). After years of imprudent macroeconomic management, leading to hyperinflation, an orthodox economic stabilization programme was initiated in August 1985. The economic reform package was partly conditioned by the World Bank and the International Monetary Fund (IMF). Their support paved the way for further donor involvement. From that moment on, Bolivia has received significant multilateral and bilateral assistance in the form of both grants and loans.

Development aid comprises basically two types of intervention: project aid and programme aid. Project aid is directly aimed at specific well-determined individual activities (projects), while programme aid consists of “all contributions made available to a recipient country for general development purposes i.e. balance-of-payments support, general budget support and commodity assistance, not linked to specific project activities” (OECD 1991:5). Programme aid basically supports the social and macroeconomic policy of the recipient country, by making available foreign exchange either at a general level (e.g. debt relief) or at a sectoral level (e.g. sectoral budget support) and it can be provided either bilaterally (e.g. import support) or multilaterally (e.g. co-financing of structural adjustment programmes). Usually, programme aid generates financial resources in local currency, known as countervalue funds.

The Netherlands policy on programme aid has its origins in a support programme (introduced in 1975) aimed at those countries that were hardest hit by the energy crisis at the time. The programme provided one-off injections of resources suitable for rapid disbursement and usually channelled through multilateral organizations, in particular to countries with which no permanent bilateral cooperation programme existed. In 1977 a special budget category was created to provide balance of payments support, which did not form part of any longer-term policy concerning those countries. From 1986–87 on

account was taken of the extent to which the policies of recipient countries were geared towards achieving enduring economic recovery. In practice, this implied that the recipient country had started a process of stabilization and economic adjustment, usually in accordance with the policies recommended by the IMF and the World Bank. This Dutch policy was expressed by co-financing arrangements with the World Bank in support of economic adjustment programmes (to Bolivia for an amount of Dfl. 19.1 million). More precise criteria on programme aid were developed during the early 1990s. In addition to economic reforms, sustainable development and good governance were also considered criteria for efficient programme aid (DGIS 1994:25–29). The instruments changed as well: while during the 1970s and early 1980s import support was predominant, debt relief and (sectoral) budget support gradually came to replace it.

The proceeds (in local currency) from the sale of donated goods (the monetization) by the government of the recipient country are known as countervalue funds. Since 1984 guidelines of the Directorate General for International Cooperation (DGIS) require that countervalue funds flow into the public budget and that the Netherlands does not exert any control over the use and destination of these funds.

This report presents the results of an evaluation of Dutch programme aid to Bolivia during the 1982–95 period, covering disbursements of Dfl. 243 million, which amount to approximately one third of the total development assistance to Bolivia. Annually, the Netherlands contribution represented on average 6% of all programme aid from all sources to Bolivia. The evaluation covered the relevance of programme aid to identified problems, and to Bolivian and Dutch policies, as well as its effectiveness, efficiency and sustainability. Only the direct effects (products) of programme aid have been assessed, since the impact, or the causality between Dutch aid and the economic performance of Bolivia is hard to trace and to prove. The performance of the economy as a result of the stabilization and structural adjustment programme has been analysed as a reference framework only. Apart from the macroeconomic evaluation, micro-level analysis was carried out in the case of fertilizer aid and the support to the social funds in the Cochabamba and Potosí departments. The selection of these departments was in accordance with the research areas chosen for the other components of the evaluation of Dutch development cooperation with Bolivia. The validity of the conclusions is restricted to the Bolivian situation and should not be interpreted as applicable to programme aid in general.

The Netherlands has financed the following four types of programme aid to Bolivia:

- balance of payments support through import supplies, amongst others medicines, fertilizers, aircraft and spare parts, electric light bulbs, and agricultural equipment;
- balance of payments support through debt relief. This includes in particular contributions to buy-back operations of commercial bank debt and contributions to reduce the

bilateral debt service burden. Since 1995, the Netherlands has provided funds to enable Bolivia to comply with its multilateral debt service obligations;

- sectoral budget support, in particular contributions to social safety nets, initially to the Social Emergency Fund (FSE) and later the Social Investment Fund (FIS);
- the co-financing of a structural adjustment credit with the International Development Association (IDA; World Bank).

Only the first three components have been evaluated by the IOB. Table 1 presents an overview of the Dutch programme aid to Bolivia.

**Table 1 Overview of Dutch programme aid to Bolivia 1982–95**

Year or period	Activity	Disbursement	
		in Dfl. million	%
Import support		<b>96.7</b>	<b>39.6</b>
1983, 1984, 1990	supply of medicines	8.8	
1982–91	supply of fertilizers and other agricultural inputs	56.9	
1984, 1986	delivery Fokker F-27 and spare parts	13.5	
1986	supply of electric bulbs Philips	3.0	
1986	reimbursement of steel pipes YFPB*	11.0	
1991	supply of agricultural equipment	3.5	
Debt relief		<b>80.1</b>	<b>32.8</b>
1987–92	buy-back commercial debt titles	44.3	
1992	other debt relief	8.5	
1995	multilateral debt relief	27.3	
Sectoral budget support			
1986–92	support to social funds	<b>37.9</b>	<b>15.6</b>
Other programme aid		<b>29.2</b>	<b>12.0</b>
<b>Total</b>		<b>243.9</b>	<b>100.0</b>

\* Yacimientos Petrolíferos Fiscales Bolivianos (the Bolivian Oil Company).

All import support was implemented bilaterally, while 28% of the debt relief, all sectoral budget support and 70% of other programme aid (in terms of disbursements) were provided through joint co-financing arrangements with the World Bank.

In 1982 no bilateral cooperation programme between the Netherlands and Bolivia existed. Since the Dutch government had expressed its willingness to support the new democracy, which faced severe economic problems, only the conditions of the balance of payments support programme allowed a relatively quick disbursement to Bolivia by means of commodity aid. Fertilizers and medicines were donated and until 1987 import support continued to be the principal instrument of Dutch development assistance to Bolivia.

## 2 **Import support**

General import support aims to reduce shortages of imported goods and to increase the existing production capacity within the economy. Import support or commodity aid was considered a currency instrument for balance of payments support, since it would reduce the need of the recipient country to use foreign exchange for commercial imports of the same goods. In Bolivia, most of the donations went to two sectors: the agricultural sector (fertilizers, agricultural equipment, insecticides) and to the health sector (medical supplies). Until 1987 goods were also supplied that were not directly related to these sectors, such as a Fokker aircraft and Philips low energy bulbs. Dutch import support represented on average 5% of import support received by Bolivia from all sources during the 1982–95 period.

Medicines were donated in 1983, 1984 and 1990 to the Bolivian Ministry of Health. Most medicines supplied in 1983 and 1984 were destined for free distribution by public health centres, according to the government's health policy at that time. The second donation consisted of essential drugs (drugs without a brand name and composed of active elements only), which was new to Bolivian public health care at the time. Although the donation was rather small in value (Dfl. 850,000), it provided an impulse to the formulation of a new medicine policy. In 1990 a new donation of essential drugs took place, this time as a component of a co-financed institution-strengthening project implemented by the Pan-American Health Organization (PAHO). The use of essential drugs has become a key feature of the Ministry of Health's medicine strategy. With the introduction of a cost recovery mechanism, the sales of the medicines have capitalized a Revolving Fund, which allows the Ministry to procure essential drugs without external aid.

The donation of fertilizers was one of the first bilateral aid activities by the Netherlands in Bolivia. The objectives formulated for the fertilizer aid were to reduce the deficit on the balance of payments, to contribute to food security at a national level and to increase productivity, rural income and food security at farm level. The first donation of 10,000 metric tonnes exceeded national requirements at the time. For a decade the Netherlands and Japan were the main suppliers of fertilizers to Bolivia. Between 1982 and 1995, Bolivia received 123,473 mt of fertilizers in donated supplies, of which 51% was donated by the Netherlands. In the course of time the donations were received by and distributed by four different public bodies. Over a period of ten years the Netherlands donated 62,926 mt, valued at Dfl. 56.9 million. After the Dutch supplies were discontinued in 1993, Japan replaced them immediately, by increasing the volume of its donations.

Fertilizer was distributed in six departments in the *Altiplano*, mainly among smallholder farmers (*campesinos*) at prices which were usually were below the import parity price.

Since the Dutch supplies accounted for 40–50% of total fertilizers available on the market, they were ‘price-setters’. Distribution was organized by the public sector, initially in a joint effort with a number of non-governmental organizations. The principal commercial importers and dealers discontinued their activities, since they could not compete with donated fertilizers. A new network of micro-distributors emerged, which provided better access to mineral fertilizers in the rural areas. The 1996 fertilizer market situation showed distortions and imperfections, which—to a large extent—have their origin in the international donations.

In 1984, the Bolivian authorities requested funds for the acquisition of two second-hand Fokker F-27 airplanes. After an initial refusal, the prospective military recipient organization was replaced by the civil airline Lloyd Aéreo Boliviano (LAB) and, after two Bolivian aircraft crashed, authorization was given to donate one airplane. In 1986, a second Fokker airplane was requested, as well as spare parts for the airplanes in use. DGIS refused the request for the aircraft, but spare parts were authorized. Though the budget was increased, the Fokker company delivered spare parts (1987) valued well in excess of the approved budget.

In 1986, the National Electricity Company requested Philips (low energy) electric bulbs to be used for street-lighting. One hundred and fifty thousand Philips lamps were procured. The Bolivian Ministry of Planning and Coordination required that the bulbs should generate countervalue funds, and dictated the selling price. This price exceeded the electricity company’s capacity to use the bulbs for street-lighting and it was decided to sell the lamps to the public in general, but prices were considered to be unattractive. In 1992, the lamps were transferred to the FIS, without the obligation to produce countervalue funds. In late 1996 about one third of the bulbs were still in stock.

In 1986, DGIS informed the Bolivian authorities of the reimbursement option for invoices for imports from eligible source countries. The purchase of steel pipes by the Bolivian Oil Company from a Mexican company was reimbursed for Dfl. 11 million. Dfl. 7 million in Dutch currency was used immediately to prepay the acquisition and installation of electrical turbines from Dutch companies.

In 1987, in the aftermath of one of the worst droughts in Bolivia’s history, a request was made for the donation of agricultural equipment, in particular water pumps for rural areas. After long delays, misunderstandings and administrative problems 1,825 pumps were delivered four years later. Due to over-estimations in the cost calculations about three times as many pumps were supplied as were requested by Bolivia. The unit price of the Dutch pumps, supplied with tubes which were too short to reach groundwater levels, appeared to be higher than ones which had become available on the Bolivian market

in the meantime. Additional tubes were supplied in order to improve the marketing opportunities, but weaknesses in the marketing capacity by the Ministry of Agriculture compelled to delegate selling in consignment to the private sector. Prices dropped to about one fifth of the cost price. Nevertheless, until 1996, only small numbers of pumps had been sold and only 11% of the anticipated countervalue funds had been generated.

#### *The policy relevance of import support*

Policy relevance has been assessed in relation to existing problems (*i*), as well as in relation to the policies set by both Bolivia (*ii*) and the Netherlands (*iii*).

(*i*) Policy relevance in relation to existing problems was high in the case of medical supplies. The extremely bad health situation in the country, with health indicators far below Latin American averages and a government budget eroded by hyperinflation and unable to procure relatively highly priced brand medicines, justified external support.

Opinions vary regarding the relevance of fertilizer aid to existing problems in the agricultural production systems, as well as to the survival strategies of smallholder producers in the Bolivian highlands. On the one side traditional methods of maintaining soil fertility (fallow land, organic manure) became difficult to sustain due to population pressure, and, as a result of development projects, part of the smallholder producers had become acquainted with the use of mineral fertilizers. On the other hand, investments in purchased inputs do not always fit into the risk management strategies of smallholders in the Andes. In addition, sound soil fertility analyses in Bolivia were scarce during the period of the fertilizer aid, so adequate types of fertilizers and application rates were insufficiently known.

The aircraft and spare parts were relevant in solving an immediate problem; the electric bulbs and reimbursement of invoices of the procurement of steel pipes were less relevant in that aspect, although the first could potentially have saved foreign exchange by reducing energy imports. The supply of water pumps had a high priority during and immediately after a period of severe drought, but when they finally arrived in Bolivia, that relevance had been lost.

(*ii*) From 1986 onwards, the health sector was always considered a priority by the Bolivian government. The social investment funds (social safety facilities) allocated a substantial part of their resources to improve health facilities. Dutch donations contributed to the formulation of new public medicine supply policies, based on essential drugs and cost recovery and were very relevant in relation to Bolivian policies in that respect.

Fertilizers were of hardly any relevance to the macroeconomic or sectoral policies of the Bolivian government. During the entire period of fertilizer supplies, Bolivia never had a well-defined policy for its agricultural sector while, within the structural adjustment programme, no particular role was attributed to the agricultural sector and no particular policy was formulated for the smallholder sub-sector until early 1996. On the contrary, supporting services to the smallholder sector were curtailed in the context of the stabilization programme. Nevertheless the Bolivian government later requested fertilizers and regretted the discontinuation of the supplies. Both the aircraft and the water pumps had a high priority for the Bolivian government, and the electric light bulbs less, but none of these supplies fitted in with specific policies.

(iii) In relation to the Netherlands policies, medicine supplies were relevant since they directly benefited low income and vulnerable groups in the population. Also fertilizer aid and agricultural equipment were relevant, because they not only contributed to the balance of payments, but were also related to the objective of poverty alleviation, aiming at the poorer *campesino* (smallholder) producers. The airplane was initially considered not eligible as balance of payment support and was not relevant to the Netherlands policies; neither were the electric light bulbs.

Overall, the supplies under the import support programme were usually not the result of policy priorities set by the Bolivian or Dutch governments. Medicine supplies proved to be relevant from different viewpoints, while fertilizer aid was mainly relevant in relation to Dutch policy. Other supplies were addressing ad hoc needs, without major policy implications.

#### *The effectiveness of import support*

The effectiveness of the import supplies was analysed at the macroeconomic and micro-economic level.

At the macro level, the key issue is whether the donations were fungible or additional. Fungibility, which contrasts with additionality, refers to the extent to which aid takes the place of expenditures which the recipient country would have made in any event, using either its own resources or other donor resources. In that case the donor support makes it possible to employ the recipients' means for alternative, usually unknown, purposes. To measure effects becomes difficult in these cases, since they may manifest themselves elsewhere in the economy. If, on the contrary, a donation is additional, direct effects can be traced in the sector or on the end-users.

The value of the total import support programme never represented over 0.5% of national annual imports. The macroeconomic effects of medicine supplies were minimal, since

the amounts involved were rather small. The donations were partially fungible, replacing imported brand medicines. Savings in foreign exchange have been estimated to be equal to the value of the donations.

Of the fertilizer aid, 30–40% of the volume might have replaced imports that would have taken place anyhow; approximately 60% should therefore be considered additional, also in terms of availability to the *campesino*. Of the other supplies, all should be considered additional, with exception of the aircraft, which would most likely have been procured by the Bolivian government anyhow. Apart from those generated by the aircraft, countervalue funds supported the public budget hardly or not at all.

Other macro-level effects include those on policy formulation and on institutional capacity. While the medicine donations contributed to policy formulation on essential drugs and public health medicine supply (e.g. cost recovery), the fertilizer aid led to a special fertilizer project by the Food and Agriculture Organization (FAO) and contributed to the formulation of projects aimed at alternative methods of fertilization. However, these efforts did not result in clear policies and guidelines regarding the handling, distribution and use of fertilizers. Institutional capacity was improved by the medicine supplies, in particular the 1990 donations, which formed part of an institutional strengthening programme. Fertilizer aid contributed to some strengthening of the institutional capacity of the public sector as well, but the effects were not lasting due to changes in the organizational structure of the public sector. The other supplies did not have any effect on either policy formulation or institutional capacity.

At the micro level, the potential effectiveness depends to a large extent on the capacity of the recipients to make appropriate use of the donations. This was definitely the case with the medicine supplies, which provided poor rural and urban population groups with access to medicines and preventive health care facilities. The donations of medicines never competed with local commercial dispensaries or affected the sales of national pharmaceutical laboratories. On the contrary, the essential drugs opened a new niche in the market, also providing the commercial pharmacies with new 'clients'. In the case of fertilizer aid and agricultural equipment, the smallholder producers (and with them the agricultural sector) would have benefited more if the fertilizer donations had been part of an integrated policy including price policies, extension and credit facilities and other supporting services. While initially some of these facilities existed, they were dismantled during the stabilization process (the Agricultural Bank was closed and the public extension system was reduced to a minimum). Fertilizer aid did have an effect on the agricultural sector, since the donations provoked a more widespread adoption of mineral fertilizers, also by smallholder producers, although fertilizer use comparable to other countries in Latin America was never reached. An unintended effect of the fertilizer



donations was the nearly total elimination of the commercial import sector for agricultural inputs. A positive effect has been the development of an—informal—retail network in rural markets, giving smallholder producers better access to fertilizers.

Mineral fertilizer used by smallholder producers had a positive impact on their financial income, since its application led to positive gross margins on some smallholder crops, in particular potatoes. Fertilizer use had almost no effect on the diversification of production, nor did it have a significant effect on the nutritional status of the smallholder producers' diet, since the increased income was used for transport, cattle and clothes. Cash crops, like potatoes and wheat, replaced crops for household consumption. In practice this implied a shift from local varieties to varieties with a higher demand on the market.

Both positive and, in exceptional cases, negative environmental effects related to fertilizer use have been observed. In general, agricultural producers use small quantities of mineral fertilizers and negative effects occur only in areas with insufficient precipitation. Women interviewed had a good knowledge of fertilizer use. Although fertilizer application increases their workload, it is rewarded by a higher cash income; they had a favourable opinion on the use of mineral fertilizer.

Until 1992, that is during almost the entire period of the import support programme, the administration of countervalue funds lacked transparency, because they were registered on separate accounts and not used for expenditures budgeted for on the public account. The allocation of the countervalues (strengthening the counterpart institutions, projects and the social funds) was either agreed upon between the Netherlands and Bolivia in advance, or decided upon ad hoc. These agreements on the allocation of the countervalues were not in accordance with the Dutch practice of avoiding the double tying of aid. The more recent Dutch policy of non-interference in the destination of countervalue funds was interpreted by the Bolivian authorities as a lack of interest and concern.

Overall, the macro-level effectiveness of import support was modest. The effect on the trade balance was insignificant, but foreign exchange was saved or could be used elsewhere. On average the countervalue funds represented nearly 62% of the cost price of the goods supplied. This was 99% of the estimated generation of funds, as it was not intended to recover the full cost price. Countervalue funds did not help to alleviate pressure on the public budget, because most were administered on special accounts accessible only to the counterpart institutions. Notwithstanding the fact that both medicine supplies and fertilizer aid were only partially additional, most effects were observed at the micro level. The donation of the agricultural equipment and electric light bulbs had no significant positive effects at all.

*The efficiency of import support*

Since commodity aid is not exclusively a macroeconomic instrument and has—at the microlevel—characteristics comparable to project aid, similar appraisal procedures would have been justified. Field appraisals were not among the standard procedures of the balance of payments support programme. Markets and the technical specifications of the import goods were either unknown or disregarded. Due to this lack of appraisal, the supply of water pumps with technical specifications unsuitable for Bolivian conditions was inefficient and the supply of electric light bulbs was also inefficient, since the market was unknown.

In general, the procurement of the supplies was efficient in value-for-money terms. This applies in particular to medicine procurement, where the shift from brand medicines to essential drugs was a major gain.

Despite the lack of information on soil, the right type of fertilizer formulas were procured, suitable for most types of soil and with a high nutrient content, which partly compensated for the high international transportation costs. Fertilizer purchases, in particular urea, could have been more economical if they had taken place in Latin America and if (initially) other international transport routes had been used.

The timing of the supplies was initially based on the availability of funds from the Dutch budget, but improved over the years and was set in accordance with Bolivian requirements. The Netherlands technical mission in Bolivia provided adequate assistance and a permanent follow-up, in particular on the fertilizer supplies. Inefficiencies were observed in the public distribution and marketing systems (in particular for agricultural equipment), also due to frequent changes in organization.

*The sustainability of import support*

Sustainability at the sector level was high in the case of medical supplies, where thanks to a cost recovery mechanism, sufficient funds were generated for imports and local purchases without external support. The import support helped to strengthen the provision and distribution system for public medicine and emphasized new concepts and policies, which have resulted in a sustainable supply system. Because medicine supplies fitted in with specific policies set by the Bolivian government, the medicine supply system is considered more sustainable than the one for fertilizer.

In the case of fertilizer aid the sustainability aspect was never taken into consideration. No efforts were made to contribute to or to create sustainable procurement and distribution

systems within the public sector, while the private sector was weakened as a result of the donations. Both the economic and ecological sustainability of fertilizer use by small-holder producers in the highlands depend mainly on the climatic conditions (in particular precipitation). *Campesino* producers who produce predominantly for the market (in particular seed potatoes) obtain sufficient gross margin to continue procuring fertilizers. This is not the case for those farmers who produce predominantly for their own consumption. In Bolivia, there are few ecological risks caused by mineral fertilizers, since input is still extremely low.

Since the donated aircraft was operated on routes not attended by commercial airlines, its economic sustainability was initially questioned. However, costs have been recovered and the airplane is still in use.

### **3 Debt relief**

Debt relief is a form of programme aid not tied to specific goods or services. It may entail debt forgiveness (or restructuring) of either the principal (or part of it), or the servicing obligations (amortization and interest payments). It is a form of balance of payments support, since foreign exchange is being saved, and the funds reserved for servicing the debt can be used for other purposes.

Depending on the source of the funds, public and publicly guaranteed debt is usually subdivided into multilateral, bilateral or commercial (private bank) debt. A specific category is concessional debt, which takes the form of credits from official lenders at Official Development Assistance (ODA) terms (i.e. loans with at least an original grant element of 25%).

Bolivia contracted most commercial loans during the military regimes of the 1970s and the early 1980s for investments in mining, the petroleum sector, transport and communication. Bilateral loans were contracted during the same period for economic and social projects, such as airport construction, the telephone system, railway improvements and integrated rural development projects. Before 1985, multilateral loans were contracted for investments in infrastructure (roads, bridges) and after 1985 for the economic stabilization and adjustment programme and its corresponding sectoral reforms.

Until 1982, Bolivia's external debt was relatively modest compared to other Latin American countries. From 1985 onwards, a substantial part of the economic adjustment programme had been financed with external loans. The evolution of Bolivia's external debt is presented in table 2.

**Table 2** Evolution of Bolivia's external debt in selected years (in US\$ million and in percentages) according to the Central Bank of Bolivia

Year	Commercial	Bilateral	Multilateral	Total
1980	989.7 (44.6%)	625.5 (28.1%)	604.9 (27.2%)	2,220.1
1985	752.2 (22.8%)	1,669.9 (50.7%)	872.3 (26.5%)	3,294.4
1990	267.5 (7.1%)	1,806.2 (47.8%)	1,705.2 (45.1%)	3,778.9
1995	33.0 (0.7%)	1,815.0 (40.1%)	2,679.2 (59.2%)	4,527.2

Source: Central Bank of Bolivia 1993 and Villegas and Loza 1996.

The data show the trend of rapidly decreasing private bank debt, falling from almost half of the total debt in 1980 to a present 1% and increasing multilateral debt, rising from 27% in 1980 to almost 60% in 1995.

In 1995, Bolivia's principal creditor was the Inter-American Development Bank (IDB) with 32% of the total debt stock, followed by the IDA with 17% and the Investment Corporation of the Andes Pact (CAF) with 5.7%.

All official bilateral debt owed to the Netherlands by Bolivia has its origin in export transactions for six Fokker airplanes in 1979 for an amount of Dfl. 92 million, publicly guaranteed by the Netherlands Credit Insurance Company (NCM). The Netherlands has never provided concessional (ODA) loans to Bolivia. The non-concessional part of the bilateral debt has always been dealt with within the context and conditions set by the Paris Club. At the end of 1995, Bolivia reached a definite solution (known as an 'exit agreement') with the participant countries of the Paris Club, which conceded a reduction of 67% of the bilateral debt stock contracted before 1985.

Soon after the international debt crisis of 1982, a secondary market developed in (private bank) debt titles (promissory notes). The international banks sold these titles to investors for a reduced price, who exchanged the notes with the Central Bank of Bolivia for local currency at a discount. To the private bank the advantage of the deal was the reduction of its dubious debt portfolio, while the investor's advantage was in obtaining national currency at a discount. National currency was needed for local payment obligations (e.g. payment of wages), so less foreign exchange had to be used for that purpose. The Central Bank's advantage was that it 'bought back' its debts, thereby reducing its (present and future) servicing obligations.

In 1987, the Dutch government made foreign exchange available to Bolivia, which allowed the country to enter into ‘buy-back’ operations of commercial debt titles at no cost, since the donor funds replaced the payments in national currency that would otherwise have been made to investors. At the same time, Bolivia was preparing a proposal to the IMF to set up a Trust Fund for the buy-back of the commercial debt. Due to communication problems and delays in the Bolivian initiative, DGIS instructed the Dutch bank NMB to purchase titles directly on the secondary market. After a first purchase by the NMB, the remaining funds from the Netherlands were deposited in the IMF Trust Fund, enabling a more massive buy-back operation afterwards.

The Netherlands’ deposit was the first donor contribution to the IMF Trust Fund, and was used by the Bolivian authorities to persuade other donors to make deposits as well. After 1989, Bolivia intended to reduce the remaining commercial debt by making use of the IDA Debt Reduction Facility. With contributions from the World Bank, Sweden, Switzerland and the Netherlands, Bolivia eliminated almost all commercial debt from its portfolio.

#### *The policy relevance of debt relief*

In 1987, the relevance of the external debt relief to the debt servicing problem was very high, since Bolivia had declared itself unable to service the commercial part of its debt (1984). Also in later years the IMF and World Bank considered the debt overhang a major bottleneck to economic growth, since the debt service obligations replaced necessary government expenditures on imports and investments.

The relevance for Bolivian development policies is closely related to the macroeconomic reforms, in particular the structural adjustment programme. The Netherlands contributions supported these policies and were relevant, in particular during the stabilization effort (1986–87). Commercial debt relief, as donor aid initiated by the Netherlands, paved the way for others and even contributed to the introduction of new multilateral financing instruments, such as the IMF Trust Fund. It also enabled the Bolivian government to contract additional loans to be used for the implementation of sectoral adjustment programmes.

Although, after 1987, debt relief was mentioned as one of the instruments of the balance of payments support programme, most policy papers and documents on debt alleviation were formulated when the contributions to debt relief in Bolivia were ongoing or had even been completed. Debt relief was relevant according to the general policies set by the Netherlands in the document “A World of Difference” (1990), which emphasized the use of cooperation funds as a catalyst, for example in the purchase of commercial debt titles.

In the case of Bolivia, the interesting feature is that the idea of repurchasing titles on the secondary market with donor funds did not originate from the international financing institutions, but from Bolivia and the Netherlands.

Another type of policy relevance is that various sources explicitly stressed the relation between the leading role played by the Netherlands in debt relief and the support for democracy in Bolivia. After decades of political instability, the position of the democratic government was immediately undermined by the economic crisis, of which the excessive debt burden formed part. The Netherlands support, as the first donor country, for the policies of the Bolivian government on its debt crisis signified more than just economic assistance: it was a signal in support of democracy.

### *The effectiveness of debt relief*

The effects of Dutch contributions to debt relief cannot be distinguished from those of other bilateral donors or financing institutions. During the 1985–95 period, the Bolivian debt portfolio showed a sharp reduction in commercial debt (thanks to buy-backs and conversions), a modest reduction in relative terms in the bilateral debt (debt relief and the simultaneous contracting of new loans), and an increase in the multilateral debt, due to new loans contracted to finance economic and social reform programmes (see table 2).

The Netherlands initiatives to repurchase commercial debt titles (1987) and the subsequent deposits in the IMF Trust Fund and IDA Debt Reduction Facility for the same purpose were effective. With the direct buy-back US\$ 15.9 million in debt titles were taken out of the market. The direct purchasing by the NMB was new, but it was also dangerous because it could have caused speculation on the market. In general, purchases with smaller amounts are avoided and a ‘once and for all’ strategy is preferred. With resources from the IMF Trust Fund, Bolivia was able to repurchase titles with a nominal value of US\$ 243.1 million. Through the IDA Debt Reduction Facility another US\$ 191 million could be eliminated. In 1995 Bolivia had almost no commercial debt left. Within the framework of the Paris Club, the Bolivian debt to the Netherlands was reduced by approximately half (from Dfl. 96 million in 1985 to Dfl. 46.7 million after the Paris Club VI exit agreement in 1995).

More important than the changes in the total debt is the country’s capacity to comply with its servicing obligations. This capacity is expressed by a number of indebtedness indicators, which show a mixed record during the 1985–95 period, as shown in table 3.

**Table 3** Development of indebtedness ratios according to the Central Bank of Bolivia

Year	TDS/XGS (%)	EDT/XGS (%)	TDS/capita (US\$)	EDT/GDP (%)
1985	33.1	440.1	594.4	51.3
1990	23.3	386.2	616.7	68.1
1995	23.8	363.1	643.1	75.5

Source: Based on data from the Central Bank of Bolivia and Delgado 1994.

TDS: Total Debt Service on long-term debt (data from the Central Bank of Bolivia include only long-term debt); EDT: External Debt Total; XGS: Exports of Goods and Services; GDP: Gross Domestic Product.

Notwithstanding a modest improvement in the principal indicator (total debt service as a ratio of export earnings), the net effects of debt relief (commercial and bilateral debt) were largely balanced out by new obligations (bilateral and multilateral debt). The increasing total debt as a ratio of the Gross Domestic Product and per capita seems to indicate that the growth in the economy is being financed by—at least—a similar growth in foreign indebtedness. The debt reduction provided relief to the National Treasury since it contributed to a modest drop (about 3%) in the debt servicing burden on fiscal expenditure. Not shown by the indicators is the fact that Bolivia refinanced its non-concessional debt with loans on concessional terms, mainly from multilateral sources.

The debt relief activities contributed to the restructuring of Bolivia's debt portfolio, leading to an increasing share for multilateral debt. Since most multilateral loans were contracted on concessional terms, the change was favourable in financial terms, but also implied a higher degree of dependency on a limited number of international lending institutions. Since the start of the structural adjustment programme the same institutions have played an important role in the definition of national development policies. Reliance on a limited number of financing institutions does not contribute to a higher level of economic, financial and political independence.

#### *The efficiency of debt relief*

Debt relief activities have been efficient in terms of timing and the use of financial resources. In particular the use of funds for buy-back operations has been very efficient in terms of opportunity costs. In fact, no alternative use could have been more efficient at the time. The Netherlands has proven to be a frontrunner on debt relief activities in Bolivia. Donor coordination is a requisite for efficiency in debt relief activities. Initially, in the case of commercial debt relief, donor coordination was rather modest and the Netherlands direct buy-back of commercial debt did not fit in with the strategy of the IMF. However, it worked out well and the Netherlands was complimented for having

opened up new options and for having sounded out the market. A limiting factor for the Netherlands was the absence of formal representation in Bolivia, so contacts were rather indirect. Concerning bilateral debt, the Netherlands coordinated with other creditor countries within the Paris Club.

### *The sustainability of debt relief*

An indebtedness strategy should focus on achieving a sustainable balance between long-term debt-service obligations and the potential (future) carrying capacity of the economy (and the Treasury) to repay this debt. Despite the fact that Bolivia has pursued a policy of reducing its current foreign debt and has improved the lending conditions in the course of time, it has not laid down its own criteria or indicators to determine sustainable levels of indebtedness.

In 1995, the Paris Club members believed that Bolivia would soon obtain a sustainable debt profile and therefore opted for an exit agreement. IMF and World Bank projections at that time were also positive. However, a 1996 debt sustainability analysis indicated that Bolivia did have a better debt profile than in 1985, but still classified as one of the twenty Highly Indebted Poor Countries (HIPC). For these HIPCs substantial support for multilateral and bilateral debt servicing was considered essential in order to achieve a sustainable debt profile.

The Bolivian economic model is still vulnerable because of the slow progress of reforms and the delay in the anticipated effects. Insufficient internal savings and private investment, reliance on public sector investments and exports based on non-renewable resources might hamper future servicing capacity.

## **4 Social investment funds**

The structural adjustment programme was intended to enhance economic growth in the medium term. In 1985, however, it was envisaged that—in the short term—the standard of living of certain social groups could decline as a result of stabilization measures leading to cutbacks in public expenditure on health, education and other social services, as well as the abolition of subsidies and the rationalization of state enterprises. The reform of the public administration and the rationalization of public enterprises was accompanied by a reduction in employment in the public sector. Changes in relative prices led to a reduction in the consumption levels of the lower (urban) socioeconomic strata. Economic adjustment not only affected the existing poor, but also gave rise to new poor. The social



dimension of adjustment became a growing concern to both the government and the international financing institutions.

Various instruments have been created to mitigate the effects on vulnerable social groups, mostly known as safety-net facilities. One of these facilities has been the social emergency fund, intended as an instrument for the rapid provision of funds to labour intensive infrastructural and social projects, which would provide opportunities for families directly affected by the austerity measures to earn an income. Social emergency funds were conceived as a temporary palliative measure to help the poor during the immediate aftermath of structural adjustment measures, until the longer term benefits reach them. They were to be replaced after three to five years by more permanent social investment funds, which would better address the problems of structural poverty (also covering groups which were already poor before the adjustment measures).

Social funds in Bolivia have had other, more general and usually not explicit policy objectives, such as to restore the confidence of the population in the state and the government after a period of dictatorship, to demonstrate the physical presence of the government nationwide and to attract international financial support.

The FSE in Bolivia is generally considered to be the first social fund in Latin America. After three years, it was replaced by the FIS, since the Bolivian government decided to adopt an approach aimed at structural poverty alleviation. While the FSE's principal objective was temporary employment generation by means of infrastructural and social works, the objectives of the FIS were focused on improving the coverage of health, education, water supply and sanitation services and on international fund-raising for the social sectors.

Both the FSE and the FIS succeeded in attracting sizeable amounts of external funds (approximately US\$ 180 million during the 1987–95 period, 9% of which came from the Netherlands). The Dutch support for the social funds was channelled through a co-financing agreement with the World Bank. Although initially considered to be project aid, the support for social funds is a form of sectoral budget support, provided (in foreign exchange) to programmes aimed at sustainable poverty alleviation, which form part of the national budget; this support was of a general character and not earmarked in advance for specific sectors, areas or projects. In addition to the direct grants, part of the countervalue funds generated by the monetization of the import support programme was allocated to the social funds. Table 4 shows the distribution of the funds to the various sectors.

**Table 4** Distribution of investments made by the FSE (1987–91) and the FIS (1991–95) by sector

Sector	Distribution (%) of total investments by FSE	Distribution (%) of total investments by FIS
health	8.6	27.4
education	16.1	40.1
water supply and sanitation	17.3	27.4
housing and urban facilities	37.3	
multisectoral	15.2	
other	5.4	5.1
total %	100.0	100.0
total (million US\$)	190.62	84.2

*The policy relevance of the support for the social funds*

The support for the FSE and FIS had a high policy relevance to the existing situation in the social services. As a result of the hyperinflation, the social services were practically inoperative in 1987, due to a lack of funds.

The policy relevance of the support to Bolivian policies was also very high, since both the FSE and the FIS were priority social schemes for all governments after 1986. The FSE was the instrument for the social dimension of adjustment; later, the FIS was one of the major vehicles of the ‘Social Strategy’ (1991) and figured among the government’s first priorities. The FIS acquired a complementary and feedback role in the definition of social policies. The coordination effort by Bolivia to obtain donor support for the social funds has been particularly strong and successful.

The policy relevance to the Netherlands priority themes was also high. These included issues like the improvement of access for poorer rural groups to the physical infrastructure, a concentration of public services and programmes (health care, education, drinking water) in the poorer areas and communities, and promoting rural employment. At a later stage, the FIS also formulated specific policies on gender and the environment. The DGIS Plans for the Andes Region stressed the importance of the Netherlands’ support for the democratization process. The support for the social funds contributed in that respect, because the funds were the public sector instrument to involve civil society (NGOs, grassroots organizations) in the implementation of the activities. Since 1994, the FIS has played an active role in the Bolivian government’s decentralization policy by introducing participatory management processes at municipal level.

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*The effectiveness of the support for the social funds*

At the macro level, the effects of the Netherlands support for the social funds cannot be distinguished from those of other sources of funding. In terms of capturing foreign exchange, the social funds were successful (US\$ 180 million). Approximately 90% of the capital inflow was spent in national currency. The FSE reached 1.7 million beneficiaries (1987–90) and the FIS 1.5 million beneficiaries (1990–93) directly or indirectly. The FSE activities made sizeable contributions to both GDP and employment generation. The FSE represented between 0.6 and 2% of GDP during the 1986–90 period and provided 731,000 person-months of employment to approximately 1.8 % of the Economically Active Population (EAP) at the time. The FIS had fewer macroeconomic effects since annual investments were smaller and its activities were not aimed at employment generation.

DGIS considers gradually increasing financial coverage with national resources and temporary external intervention important factors for effective social sector support. In addition to these, the external support for social funds is probably most effective if it is only partially additional to national public contributions (if all external resources were additional, they would create sustainability problems and if all replaced national investment, there would be no effects at all within the sector). Between 1986 and 1990, public sector expenditure in the social sectors slowed down, due to monetary (stabilization) policies, and external contributions largely replaced national public investment. However, after that time public investment increased and in 1995 approximately 31% of total public expenditure and 20.4% of public investment were directed to the social sectors.

It is methodologically difficult to quantify the participation of the social funds in the improvement of national social indicators, since their contribution is largely indirect: expansion in infrastructure creates an enabling environment for other programmes in the social sectors, such as educational reform. In other words: a better school does not improve education, but a better education requires a school building. The FSE was not an effective instrument in improving social indicators at a national level, since it did not allocate its resources to the most needed social groups, sectors or regions, but to those with the best capacity to formulate projects. One of the drawbacks of this demand-driven approach was its lack of linkage with any development strategy at local, regional or national level. The FSE's successor, FIS, focused on active promotion of projects among vulnerable groups and in remote areas and prioritized its projects on the basis of a poverty map. Targeting became a methodological issue of debate between the FIS and various donors on topics like selection criteria for geographical areas, urban or rural priorities and coverage. Most targeting problems were overcome by the Decentralization Law in 1995, when the FIS changed its strategy and started to allocate resources to priority municipalities.

Both the FSE and FIS were effective in achieving their 'higher objectives', such as re-establishing confidence in the state and government, and in demonstrating the presence of the state nationwide, also in the most remote areas.

Since about seventy percent of the total national population, including about ninety-five percent of the rural population, has been classified as poor, it can almost always be proved that the FSE was successful in disbursements to projects targeted at poor groups. However, the FSE did not directly reach its target group of 'new poor'. Only 10% of ex-miners were employed by the FSE. The FIS enhanced the access of the poor to social services, but had no impact on their incomes.

The effects on women were negligible in terms of employment generation: only 1% of all persons employed by the FSE was female. Later, the FIS included women as a 'vulnerable' group in its policies, but did not develop specific gender policies until 1994. However, the investments made in social infrastructure benefited women more than men. The education enrolment rate of females increased more than the one for males, while drinking water and primary health care facilities are more frequently used by women than men.

The current FIS does not pretend to improve national social indicators and preliminary studies indicate that the benefits of FIS financed projects should be interpreted cautiously, because of a substitution effect (children abandoning the school in their village in order to attend a more modern FIS financed school elsewhere). However, the efforts of the FSE and FIS (infrastructure) in combination with other programmes in the social sector have been effective in improving national social indicators: mortality rates are decreasing, life expectancy is increasing, illiteracy rates have dropped and a larger percentage of the population has gained access to basic services like drinking water facilities and sanitation.

#### *The efficiency of the support for the social funds*

The efficiency of the FSE was high, maintaining extreme low operative costs and applying quick disbursement procedures. However, projects were not always well planned and monitored. The FIS had better planning procedures and was more efficient in resource allocation, but this was accompanied by higher operative and administrative costs and slower procedures. The Netherlands contributions were channelled through a co-financing agreement with the World Bank. The efficiency of the World Bank in administering the Dutch funds was low. Friction on administrative issues between the Netherlands and the World Bank contributed to the Netherlands decision not to pledge additional funds to the second FIS credit in 1993. The World Bank's supervision of subproject approval procedures for the FIS was slow, troublesome and complicated.

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*The sustainability of the social funds*

Regarding institutional sustainability, the role of the social funds changed over time. The FIS has become an open ended institution, while one of its functions has become that of external fund-raiser to the social sector. Sustainability does not depend only on national budget allocations to the FIS, but the yardstick for sustainability is the capacity to maintain and continuously improve social services, financed either from public resources or user contributions.

Although the consolidation and sustainability of subprojects initially received little attention from either the FSE or the FIS, most evaluated subprojects, in particular educational centres, are well used and in a regular state of maintenance. However, there are deficiencies in sanitary facilities, equipment and didactic materials. Future maintenance seems to be guaranteed by the decentralization laws, under which the municipalities and/or the users have become responsible for regular maintenance and bear part of the recurrent costs. To this end some 23% (1996) of the national budget would be administered directly by the municipalities.

## **5 Overall findings**

In 1982, the decision by the Netherlands government to provide programme aid to Bolivia had more political than economic reasons. The support for democracy after many years of instable military regimes was the predominant consideration. Since Bolivia—obviously—was not among the ‘programme countries’ (countries on which the Netherlands development aid effort focused), the balance of payments support programme was the instrument to provide a relatively rapid disbursement, by means of commodity aid, without any future obligations. The Bolivian government never considered commodity aid as a macroeconomic instrument, but as support at sector level. Until 1986, import support was the only form of bilateral aid provided by the Netherlands to Bolivia. In later years, the continuation of programme aid was justified by the macroeconomic reforms. Debt relief was more explicitly a macroeconomic instrument and was also considered as such by Bolivia. The support for the social funds was initially treated as project aid by the Netherlands, but was later considered as sectoral budget support, which it had been to the Bolivian authorities from the beginning. So conceptually, the various instruments of programme aid were not always interpreted in the same way by the Netherlands and Bolivian authorities.

Programme aid, in particular debt relief and budget support, are predominantly financial instruments and require few human resources of either the Ministry of Foreign Affairs or

the Netherlands Embassy. Because the Netherlands had no resident diplomatic representation in Bolivia before 1987, programme aid was a convenient form of development aid in that respect.

The Netherlands instruments of programme aid changed over time. While import support was the prevailing instrument during the first half of the 1980s, debt relief became later the more important. Co-financing arrangements with the World Bank to support structural adjustment programmes and sectoral budget support completed the instruments. There was no sequence in the use of instruments, but there was a change in the intensity: import support started as the most important instrument but was gradually phased out. Debt relief was new in 1987, but has become one of the major instruments, while the use of sector budget support has varied over time according to the needs and options for (co-financing) implementation arrangements. This change was the outcome of both the evolution in Bolivia's adjustment of its economic policies and the growing confidence in Bolivia's management capacities. These changes are gradual improvements in the implementation of programme aid in Bolivia.

During the first years of programme aid, the Netherlands policies predominated over policy relevance to Bolivia. Although the medicine supplies fitted in with the policies set by the Bolivian government (and the delivery of the airplane fulfilled an immediate need), fertilizer aid was not among the priorities set by the Bolivian authorities and the agricultural sector did not figure among their key sectors for economic development. Bolivian requests to focus programme aid on their priority sectors (for example, transport and communication) were not addressed.

The debt relief was very relevant to Bolivia, fitting into the economic reform programme well and contributing to stabilization measures by reducing debt service obligations. Also the support for the FSE and FIS had a high policy relevance and was compatible with the priorities set by the Bolivian government. In the course of time, therefore, better policy convergence of the instruments was achieved.

The sustainability of programme aid to Bolivia did not receive sufficient attention. The import support programme (with exception of the medicine supplies) never took sustainability aspects into consideration. In the case of debt relief, it was assumed (Paris Club, 1995) that Bolivia would soon obtain a sustainable debt profile, but in 1996 Bolivia was still classified as one of the twenty HIPC's. Its repayment capacity only partially improved due to the contracting of new credits and focusing investments in the social sector. Moreover Bolivia lacks its own policy on indebtedness standards. Sustainability in the case of the social funds depends on the national capacity to continue maintaining and improving the social services strengthened by these funds, and not

only on the contributions made by the Bolivian public budget to the social investment fund.

The Netherlands policies on programme aid do not consider criteria on complementarity between the instruments, as do the policies of some other donors (e.g. Switzerland). While programme aid instruments have been unrelated to each other, a certain implicit complementarity with project aid has existed: several projects in the agricultural sector have their origins in the fertilizer donations and there are relations between the medicine donations, the support for the social funds and projects in the health sector.

Convergence in the effects of programme aid do exist: one of the effects of debt relief was that Bolivia was able to contract new multilateral loans aimed at financing reforms in the social sector. While debt relief might be considered ex-post funding for these reforms, sectoral budget support has benefited the same sectors, but with the advantage of an advance payment.

During the first years of Dutch aid there were no reasons for high confidence in Bolivian policy and governance: the country had a recent history of political instability and was suffering from a disastrous economic situation. With the stabilization of the economy and the consolidation of democracy confidence grew and justified the expansion of programme aid. In Bolivia, however, this was not the case. This is explained by the launching of a regular bilateral development programme with Bolivia in 1987. In its policy for the Andes Region (1990) DGIS determined, that 30% of all bilateral aid to Bolivia should be allocated on programme aid. Although annual fluctuations have occurred, since then programme aid has been maintained at one third of total aid.





# 1 Design and scope of the study

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In development cooperation a broad distinction can be made between voluntary contributions to international organizations, project aid and programme aid. According to the definition of the Development Assistance Committee: “Programme assistance consists of all contributions made available to a recipient country for general development purposes i.e. balance-of-payments support, general budget support and commodity assistance, not linked to specific project activities” (OECD 1991:5). The objectives of programme aid have changed in time and currently the main objective is to provide support for economic reform programmes or, in a wider context, is “focused primarily to supporting the overall economic and social policy of a country” (DGIS 1994:2).

The main objective of this study is to evaluate the policy relevance, effectiveness, efficiency and sustainability of the various components of Dutch programme aid to Bolivia.

*Policy relevance* refers to the extent to which the programme addresses the development problems of Bolivia and the degree with which the programme reflects the priorities of both the Netherlands and Bolivia.

*Effectiveness* pertains to the extent to which policy and project objectives have been realized through the project or programme’s activities. The achievements can be distinguished in outputs, effects and impact. In particular attention has been paid to:

- the socioeconomic groups which have benefited from the activities and the effects for the target groups of Dutch development cooperation;
- the effects on the position of women;
- the consequence of the activity for the environment;
- the contribution to economic self-reliance and poverty alleviation.

*Efficiency* is defined as the realization of objectives in relation to the resources used. Efficiency considers the choice of instruments (opportunities), time and resources (human and financial) used.

*Sustainability* refers to the potential to retain the achievements of development cooperation after major financial, managerial and technical assistance from an external donor has ended.

This report presents descriptive information on all programme aid provided to Bolivia over the 1982–95 period. The in-depth evaluation and the conclusions, however, are confined to activities financed before 31 December, 1994.

During the 1982–95 period the Netherlands provided Dfl. 243 million in programme aid to Bolivia, being 32.6% of total development assistance provided by the Netherlands to the country. Three categories of programme aid were studied:

- import support;
- contributions to alleviate external debt service obligations;
- sectoral budget support to the social funds (safety net facilities).

The analysis of the import support programme was based on various studies: the evaluation of the fertilizer aid conducted late 1995 and mid 1996; the evaluation of medicine aid (early 1996), and the supply of agricultural equipment and other goods (late 1995). The evaluation of the Dutch debt relief activities to Bolivia was carried out mid 1995, while the study on the social funds was conducted during the second part of 1996.

Computational operations and file research were carried out by Martijn de Groot, Karel Jungheim and Roelie Lenten. The following field studies were conducted in Bolivia by local researchers:

- the fertilizer aid study: Leen Buitendijk (systematization of import supply data), Sabina Espinoza F. (gender study in Potosí), Oscar Aguilar O. (study on organization and institutions involved in fertilizer supplies), Julio Prudencio B. (microeconomics of fertilizer application), and Rafael E. Rojas L. (macroeconomics and fertilizer market); additional support was provided by the FAO Fertilisuelos Project (effects of fertilization on soils and crop response);
- the study of the Dutch debt relief activities: Helga Salinas C.; and
- the study of the social funds: Helga Salinas C., Maria Elena Gisbert and Miguel Alzérreca B.

## **1.1 Questions addressed**

This evaluation of programme aid addressed a number of general questions, as well as specific questions per component. The following key questions were raised:

- how did the Dutch programme aid relate to Bolivia's main development problems, and to its structural adjustment programme?

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- what were the effects of the Dutch programme aid activities at both macro and micro level?
  - how efficient has programme aid been, including the way it has been organized and carried out?
  - to what extent have the results of the Dutch development activities been sustainable?

Specific questions regarding the *import support programme* were:

- What was the composition of the import support programme to Bolivia and what was its relevance to the policy of the Bolivian government, in particular regarding the macroeconomic reforms and its sectoral policy?
- How did import support comply with the overall aims of Dutch development policy in Bolivia, in particular in terms of economic self-reliance and poverty alleviation?
- What have been the macroeconomic and microeconomic effects of the import support programme with Bolivia, in particular of fertilizer aid and medicine aid?
- Should the use of mineral fertilizers in the Bolivian agriculture be considered beneficial or, on the contrary, harmful and unsustainable?
- Have the *campesinos* had access to fertilizers and what have the effects been of using mineral fertilizers on production, food security and income?

Key questions analysed regarding *debt relief* activities were:

- How does the Bolivian official external debt break down and how has the Bolivian indebtedness evolved?
- How did Dutch programme aid contribute to the alleviation of the debt service obligations, in particular through the buy-back of part of Bolivia's commercial debt obligations?
- How did the debt relief comply with the overall aims of Dutch development policy in Bolivia, in particular in terms of economic self-reliance and poverty alleviation?
- What have been the macroeconomic effects of debt alleviation to Bolivia?
- How sustainable are the effects of debt alleviation, as expressed by long-term improvements in indebtedness indicators?

The analysis of the *social funds* focused on the following key questions:

- How did sectoral budget aid comply with the overall policies of the Bolivian government, and with Dutch development policy, in particular in terms of poverty alleviation?
- How effective have the social funds been as a safety net for social strata affected negatively by the adjustment programme; how effective have they been in generating employment and improving social indicators?
- How sustainable are the subprojects implemented by the social funds?

## **1.2 Approach and methods**

The study was carried out according to a predefined methodology comprising the following components and stages:

- general orientation and review of relevant literature on the subjects chosen;
- desk study of policy documents, project files, progress reports, evaluation studies and relevant documentation at the Ministry of Foreign Affairs in the Netherlands; interviews with staff members of the DGIS;
- elaboration of a base document containing the principal themes to be investigated during the research period in Bolivia. Formulation of evaluative questions;
- two to six weeks field study per component. All studies were conducted by teams composed of one Dutch consultant and one or more Bolivian consultants and researchers;
- an examination of the files at the Royal Netherlands Embassy in La Paz and the Ministry of Finance in Bolivia;
- interviews with Bolivian officials and ex-officials, Netherlands embassy staff, and representatives of donor organizations;
- field studies, consisting of the collection of additional statistical information, documentation and literature; interviews with former officials (e.g. ministers) and governmental institutions involved;
- the direct involvement of Bolivian key informants (e.g. persons formerly responsible for programmes and experts of the FAO Fertilisuelos Project);
- micro level studies focused on direct actors: beneficiaries, project staff and others;
- elaboration of a consultancy report, which, taking into consideration comments made by various actors involved, provided the basis for the elaboration of a final draft report.

All micro level field studies (fertilizer use at micro level; gender aspects of fertilizer use and marketing, institutional aspects of fertilizer distribution; market studies on fertilizers and medicines; and sustainability aspects of social infrastructure financed by the social funds) were conducted in the Cochabamba and Potosí departments. The selection of these departments was in accordance with the research areas chosen for the other components of the evaluation of Dutch development cooperation with Bolivia.

## **1.3 Conceptual issues regarding the evaluation of programme aid**

The objectives of programme aid have changed over time. Before mid 1980 balance of payments support was aimed at helping particular sectors suffering from a foreign exchange constraint, predominantly by the supply of import goods. Since the start of the adjustment programmes, the objective has been to support ongoing reforms and programme aid has become a macroeconomic policy instrument.

Although the current rationale for programme aid is macroeconomic, from an evaluation point of view both macroeconomic and microeconomic analytical perspectives are needed, as there is no agreed framework for evaluating programme aid (White 1996:1). From a macro point of view, the evaluation of programme aid should focus on the development of the national economy itself. Theoretically, the effects of import support, debt relief or sectoral budget support could be traceable in the balance of payments and in the composition of the public expenditure account, while the wider impact could be observed in the level of economic growth and progress in policy reforms (White 1996:6). However, these effects are usually difficult to trace or measure: programme aid comprises only a minor percentage of financial movements, while changes in the trade balance might have other causes. It is sometimes argued that the best evaluation instrument are the World Bank's "Public Expenditure Reviews", which indicate the overall progress of the economic reform efforts (DGIS 1994:8), while others argue for macroeconomic modelling (simulation models) (White 1996:9).

There are arguments to restrict the evaluation of programme aid to changes in macroeconomic and social indicators, although direct causality between donor support and changes in these indicators can usually not be proven. At least, from an analytical point of view, programme aid cannot be said to have caused these changes.

In addition, measurement of the effectiveness of programme aid is complicated by the problem of fungibility. Fungibility, which contrasts with additionality, refers to the extent to which aid takes the place of expenditures which the recipient country would have made in any event, either using its own resources or with help from other donors. Fungibility means that programme aid is in principle not susceptible to donor steering. If import support were entirely fungible, no economic effects might be expected at the micro-level; if, on the contrary, it were additional, effects can be studied at the micro-level. In that case microeconomic analysis would be required.

A second reason for microeconomic analysis is that, during the earlier period of programme aid, the instrument was not seen as exclusively macroeconomic, but had to serve other objectives as well, such as the poverty alleviation and support for specific sectors (such as the agriculture). Here, the question of fungibility or additionality becomes important since it determines the extent to which effects can be measured within a particular sector.

There is a certain conflict of interest between macro and micro aims, with import support in particular. On the one hand, import support should substitute at least part of the imports undertaken previously in order to alleviate pressure on the trade balance (and bridge the financing gap); on the other hand, if all donations only substitute imports

that would have taken place in any event, there will be no direct impact on the target sectors.

In the present evaluation, both macro-level and micro-level analyses have been carried out in each of the sub-studies, but with a different emphasis according to the instrument e.g. the micro-level effects of debt relief activities are not traceable, while those of fertilizer aid are.

#### **1.4 Structure of the report**

Since programme aid is directly related to Bolivia's economic policy, the report firstly presents an overview of economic development in Bolivia and in particular of its structural adjustment programme since 1985.

The following chapter provides an overview of all Dutch programme aid to Bolivia and elaborates on the Dutch policies on programme aid and its procedures for implementation.

The subsequent three chapters (4–6) deal with each of the three categories of programme aid evaluated: the import support programme, with particular attention on fertilizer aid, debt relief activities and support for the social funds.

Each of the evaluative chapters has the same lay-out in presenting the analysis, discussing the following, in sequence: policy relevance (in relation to the nature of the problems encountered, as well as in relation to both Bolivian and Dutch development policies); effectiveness at macro level and, if applicable, at micro level; efficiency (in terms of time use, financial resources and opportunities) and, finally, the aspects of sustainability.

## 2 The economic development of Bolivia and its structural adjustment programme

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### 2.1 Introduction

The 1980s witnessed some very profound transformations in Bolivia's political, economic and social systems. The tumultuous and difficult transition from military rule to democracy (1978–82) was followed by a severe economic and monetary crisis (1982–85). After years of imprudent macroeconomic management, with severe external debt payment problems, exports collapsed in 1985 due to the great tin crash, while extreme droughts and severe floods ravaged the rural areas (1983–87). A major economic crisis with extreme hyperinflation during 1984–85 provoked almost daily demonstrations by labour unions. The initiation of a radical orthodox economic stabilization programme in August 1985 posed a serious political threat to the Bolivian government. However, the majority of the population was convinced that only draconian measures could possibly reverse the downward spiral of hyperinflation and unemployment. At least Bolivia never witnessed 'austerity riots', such as have occurred in many other countries that experienced 'shock therapies' (Van Lindert 1996:15).

The 1985 economic reform package was partly imposed by the World Bank and the IMF. Their support paved the way for further donor involvement. The international donor support aimed not only at restructuring the economy, but also at the definitive consolidation of democracy and the modernization of the State.

Dutch programme aid to Bolivia started in 1982 with the principal aim supporting the new democracy. However, its continuation and extension depended on a change in Bolivian macroeconomic policies. The import support programme gradually became more and more conditional on sound economic policies, while other forms of programme aid, such as debt relief and sectoral budget support have been linked to macroeconomic policies from the start. Currently, programme aid—by definition—primarily aims to support the overall economic and social policy of the recipient country (DGIS 1994:2).

This chapter briefly describes and analyses Bolivian economic development, in particular the structural adjustment programme, and indicates how three forms of Dutch programme

aid (import support, debt relief and sectoral budget support) have assisted the Bolivian economic development.

## **2.2 The economy between 1952 and 1985**

Up to 1952, the Bolivian economy was entirely dominated by the mining industry and mining related activities. In addition, a small group of landlords owned 98% of the cultivable land. The owners of these enterprises made high returns on their investments, while the majority of the population lived in semi-feudal circumstances. The political and economic influence of the mining sector stood in the way of any steps by the state to impose taxes on turnover or profits. Economic and political (military) power were linked by family ties. Faced with an extremely low revenue generating capacity, subsequent governments restricted public investment to the construction of infrastructure, such as railway networks and roads (usually financed by external credits). Financial resources were hardly made available for investment in social services such as education, health, water supply or rural transport.

The National Revolution in 1952 resulted mainly in the improvement of labour rights, free education, the nationalization of enterprises (mainly tin mines) and the *Reforma Agraria* (Agrarian Reform). The *Reforma Agraria* started a process of expropriation and redistribution of land according to the principle of ‘the land belongs to the one who works it’. However, the redistribution did not include the right to sell or transfer (to capitalize) land.

The role of the public sector expanded rapidly: numerous state enterprises were created and during the 1952–81 period the public sector was responsible for approximately 70% of all investments in the country. Private sector investments were regulated by restrictive control mechanisms, together with a complex system to protect the internal market (tariffs, price control, direct marketing of consumer goods, export levies).

The prevailing economic model was that of self-sufficiency and import substitution, using protectionist policies, preferring employment to productivity. A rapid succession of governments took populist measures subsidizing inputs, basic needs and ‘protecting’ workers against ‘exploitation’ by employers from the private sector. It should be noted that the policy of self-sufficiency, import substitution and protection against foreign capital, in particular against multinational companies, was a mainstream economic development philosophy at the time, shared by many donor countries and accepted by the International Financing Institutions. Equal income distribution and national self-reliance were considered of utmost importance for development (Kaffenberger 1995).



In the early seventies, the Bolivian economy showed a significant capacity for growth: the discovery of gas deposits allowed the State to obtain sizeable credits from private banks while simultaneously, international development cooperation started to assume part of the financing burden for infrastructure and social services. This generated a net financial flow towards Bolivia, enabling substantial public sector investment, which resulted in an average annual growth of the GDP of 5%.

However, dependency on external capital, the accumulation of foreign debt, the lack of management capacity in public enterprises (most of them run at low or negative profitability), the rather hostile environment to the private sector, together eroded confidence in the economy. In 1982, dollar accounts had to be changed into national currency accounts. International private banks became reluctant in their lending policy to Bolivia, private enterprises closed and the flight of capital increased rapidly. Social unrest and political chaos were accompanied by frequent *coups d'état*.<sup>1</sup> Military presidents intended to conceal budget deficits by creating money, causing rapid and uncontrollable hyperinflation. In an effort to restrict the massive erosion of foreign exchange reserves, the military regime imposed a dual exchange system in 1982, which meant that all exporters had to change 40% of their earnings against the official exchange rate, which was on average only 50% of the parallel exchange rate. Apart from being a disincentive to exports, it also almost made corruption official and created parallel financial circuits.

Increasing international demand for coca derivatives in the early 1980s helped to strengthen these non-official financial markets. Before 1985, millions of narco-dollars went to the United States, where they were laundered. The Miami branch of the *Banco de Santa Cruz* had a higher turnover than its main office in Bolivia (Van Lindert 1996:2).

At the end of the 1970s prices for mineral products fell into continuous decline. This particularly affected Bolivia's main export product: tin. Simultaneously the terms of trade between primary products and manufactured products deteriorated, causing significant imbalances on the trade account and the balance of payments. In 1984 and 1985 tin prices dropped dramatically, seriously affecting Bolivia's export earnings. A prolonged dry spell between 1983 and 1987 devastated the agricultural sector and forced the import of food. The economic situation placed the democratic government (October 1982) in a difficult situation, because it was elected with the support from the low and middle income strata of the population, which demanded immediate real income increases. The government focused on the consolidation of democracy and on re-establishing the ties with the Bretton Woods institutions and the international donor community. Macroeconomic policy was not its first priority and demands were accommodated by temporary palliative measures,

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<sup>1</sup> Bolivia was characterized by a lack of stable central government up to 1982: since Independence in 1821 nearly 200 coups had taken place.

which often aggravated the macroeconomic situation. Due to unsound economic policies, inflation reached the astronomical level of 11,700 %, and the fiscal deficit rose to 30%. Until 1985 assistance from the World Bank and IMF had been modest and economic reform was a condition for future assistance.

In 1985, the next government set different priorities. While the previous government achieved to reestablish ties with the World Bank and the IMF, this one aimed to obtain financial support from them and to provide solutions to the economic crisis.

In summary, the main achievements of the 1952–85 period were:

- the political emancipation of the majority of the population (right to vote and labour rights legislation);
- the introduction of tax and levy systems;
- the strengthening of the role of the State;
- some redistribution of land, and
- the construction of infrastructural works.

The main deficiencies were:

- almost all public sector investments (infrastructure) were financed by external credits, without an adequate tax generation system enabling these external commitments to be amortized;
- the nationalization of enterprises led to inefficient investments and management;
- the lack of internal savings, lack of private investments and the flight of capital (including narco capital);
- public sector financing by the creation of money, causing hyperinflation;
- a lack of attention to the agricultural sector and rural poverty;
- a lack of attention to social services, such as education and health;
- the incapacity of the State to explore natural resources (gas) in an adequate manner, and to the benefit of society;
- bad macroeconomic policies with price control, implicit taxation of exports and subsidies on imports (dual exchange system).

### **2.3 The New Economic Policy**

The 1984 government of President Paz Estenssoro (who instigated the National Revolution in 1952) considered the economic situation to be the result of the economic model currently in place and not the result of any conjunctural situation. While its 1952 policy had been to strengthen the role of the State, in 1985 the government looked for a major contribution by the private sector and economic growth based on market forces.

The structural adjustment programme, which started in August 1985 with the *Decreto Supremo 21060*, introduced the New Economic Policy (NEP), which was started without external assistance in accordance with the policies recommended by the IMF. Support was obtained from the Bolivian Employers Association, but there was opposition from the Bolivian Central Labour Union (COB). Bolivia was the second country in Latin America, after Chile, to undertake structural reform of its economy (an ‘early adjuster’). Although the President announced to the population that the economic reform was ‘to set the basic conditions to combat poverty’, in practice other arguments might have prevailed, such as:

- overcoming the extremes of the economic crisis, such as hyperinflation and massive flight of capital<sup>2</sup>;
- to attract foreign capital for the implementation of announced government programmes, which implied compliance with the conditions for disbursement of credits, set by the IMF and World Bank.

The package of macroeconomic instruments that should comprise a structural adjustment programme is subject to debate in economic literature. Bolivia opted for a radical orthodox neo-liberal model, along the lines of the Washington Agenda (see box 1) and applied ‘shock therapy’ (Vos, Lee and Mejía 1996:1).

In general, structural adjustment programmes consist of a number of—sometimes sequential—components:

- stabilization: a package of immediate measures to balance the national public budget and to control inflation (‘to balance the chequebook’);
- liberalization: measures aimed at price setting by market forces (‘getting the prices right’);
- administrative and institutional reform.

Second-generation measures may include:

- privatization of state enterprises (usually not immediately after the start of the adjustment programme);
- providing incentives to strategic productive sectors (usually not short-term but medium and long-term policies).

Although it is formally incorrect to speak of ‘stages’ (since an adjustment programme is a continuous process), it is possible to distinguish three periods with a different focus in Bolivia. These periods coincide more or less with the terms of government of Dr.

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<sup>2</sup> In order to acquire Bolivian (narco) capital abroad, the government abolished tax on repatriated capital. Also, former restrictions on dollar transactions were lifted. A third measure proved even more effective: investigation of the origins of any monies deposited with the Central Bank was expressly prohibited by law (Van Lindert 1996:2).

**Box 1. The Washington Agenda**

The Washington Agenda (or Washington Consensus) consists of a neo-classical model for economic growth, usually recommended or imposed by the IMF and the World Bank in their lending arrangements. The IDB and the USAID support these concepts. The package of policies includes:

- restoring fiscal discipline and balancing the public budget (reducing expenditures and increasing revenues by broadening the tax base);
- liberalizing international trade by abolishing non-tariff barriers and simplifying tariff structures on exports; bolstering exports by supply-side policies; liberalizing imports;
- eliminating exchange rate distortions by setting one single exchange rate to be determined by the capital market;
- reforming the financial markets, in particular decontrolling interest rates and introducing auctioning for government paper and stock exchange for private sector investment (a market determined interest rate);
- resetting the relative prices on the domestic market by the elimination of subsidies, decontrolling of prices and deregulation of market systems;
- privatizing public enterprises;
- providing incentives to private sector investment by developing active policies to attract foreign capital and by protection of property rights;
- reducing government intervention and redefining the role and functions of the public sector in order to increase government efficiency.

Usually, external financing is secured to support the adjustment programme. In 1995, a study carried out by the IMF on the conditions attached to 45 lending arrangements for 36 countries revealed that countries which ‘moved as rapidly as possible with reforms’ (so-called ‘shock therapy’) obtained better results than those who implemented gradual changes.

Source: Based on Collas-Monsod 1995

Paz Estenssoro (1985–1989), Lic. Paz Zamora (1989–1993) and Lic. Sánchez de Lozada (1993–1997). These three periods are:

- structural adjustment with an emphasis on stabilization, initiated by the *Decreto Supremo (DS) 21060* in August 1985;
- structural adjustment with an emphasis on the Social Strategy, initiated by the DS 22964 in September 1991;
- structural adjustment with the second generation of reforms, initiated by the IMF Enhanced Structural Adjustment Facility (ESAF) in October 1994.

*The first period: 1985–90*

During the first period of Bolivia’s adjustment programme emphasis was placed on stabilization, liberalization and administrative and institutional reform programmes.

The *stabilization* programme included:

- devaluation of the national currency by 93% and the introduction of a new currency valued at 1:1.000.000;
- unification of exchange rates determined by auctioning;
- tight restrictions on the creation of money;
- a restrictive fiscal policy with a drastic reduction of public expenditure, and increased revenue generation by new taxes (petrol, public services, value added tax) and a simplified tax system;
- restrictive measures on credits provided by the Central Bank of Bolivia; elimination of subsidies on credits.

The *liberalization* measures included:

- trade liberalization by abolishing subsidies and price control mechanisms; the elimination of administrative and tax restrictions, and unifying import levies;
- liberalization of the labour market, with an initial freeze on wage increases, followed later by indexing at inflation levels;
- the liberalization of the capital market, eliminating restrictions on transactions in foreign exchange and on interest rates; introduction of a stock exchange and strengthening of the private banking system.

The *administrative and institutional reforms* included:

- a new employment policy, leading to the dismissal of some 30,000 civil servants, among them 23,000 miners at the state-owned Corporación Minera de Bolivia (Bolivian Mining Corporation);
- a social safety net facility, the Social Emergency Fund, which was intended to provide temporary employment in small-scale infrastructure and social projects (see chapter 6);
- reorganization of the public administration and financial control system.

The *privatization* policy was formulated, but not implemented, with the exception of newly developed joint venture mechanisms in the mining sector. Studies on strategical sectors were carried out (export of natural gas and agricultural produce).

When the government changed in 1989, the results of the first years of structural adjustment had been below expectations. Three external factors had a negative impact:

- international tin prices continued to decline, causing a drop in export earnings;
- due to the international debt crisis the opportunities to obtain credits for reform programmes from other sources than the Bretton Woods institutions were minimal;
- a prolonged drought affected the agricultural sector and forced the country to import food.

*The second period: 1991–94*

The second period is characterized by a government policy geared to combating poverty in a more direct way, by means of the Social Strategy (1991). This strategy would be implemented together with the ‘modification of the economic productive structure’. In practice, stabilization efforts were basically maintained and not further expanded or developed. The economic ‘modification’ programmes focused on increasing the efficiency of the financial sector, the privatization of small and medium-sized commercial public enterprises, streamlining trade and registration procedures and improvement of the system of selecting public sector investment projects.

The Social Strategy was based on the view that social policies are not an ‘expenditure’ on social services, but an ‘investment’ in human resources and are, for that reason, a long-term contribution to socioeconomic development. The Social Strategy included two principal components:

- investments in primary health care and education. Important instruments for implementation were the Social Investment Fund, which replaced the previous FSE, and the Regional Development Fund (FDR), and the educational reform programme;
- attention to the needs of the most vulnerable social groups (identified as the population dependent on traditional agriculture, in particular women, the informal urban population, children, and the elderly). The most important instrument has been the reform of the pension system. This reform is directly linked to the capitalization of public enterprises, since the government shares in these enterprises are deposited as contributions to the various privately managed pension funds.

The most important activities aimed at modification of the economic structure have been:

- capitalization and privatization (see box 2);
- reform of the financial system, involving strengthening of the Central Bank of Bolivia, the Financial Superintendence, and of the insurance companies, as well as opening up small credit lines aimed at micro and small enterprises;
- the modernization of the state, comprising the restructuring of ministerial organization, reform of the judiciary, and decentralization of administration through the popular participation law.

The IDA Structural Adjustment Credit, which became effective in 1991 (US\$ 40 million) was co-financed by the Netherlands, Switzerland and USAID. The Dutch contribution amounted to Dfl. 19.1 million (US\$ 10.8 million).

**Box 2. Privatization and Capitalization**

*Privatization* (understood as a 100% transfer of ownership from the public to the private sector) is in Bolivia restricted to small scale regional companies (e.g. hotels, small factories) sold by public tendering at market prices.

*Capitalization* intends to improve the viability and performance of state enterprises by investments by private (domestic or foreign) companies to an amount similar or superior to their market value, against a transfer of 50% of the shares of the enterprise. The remaining 50% of shares, owned by the State, will subsequently be deposited in the privately administered pension funds. Consequently the former public enterprise will be transformed into a 100% private company. In first instance the six major public enterprises would be involved.

There is a clear difference between privatization and capitalization. With privatization there is a cash flow to the Treasurer (TGN), while with capitalization the strategic partner does not pay, but invests in the company, so there is no cash income to the TGN. Contrary to other countries, where structural adjustment programmes are financed wholly or partially with revenues from the sale of public enterprises, Bolivia lacks this financial injection into its public budget.

*The third period: from 1994 onwards*

With the ESAF agreement in 1994, Bolivia entered the third period of its structural adjustment programme. The support by the international financing institutions paved the way for the implementation of the programmes prepared during the previous period, including those which go beyond the economic aspects and deal with democratization, people's participation and administrative and budgetary decentralization.

More than during the previous periods, the government's programme has been aimed at human development and at sustainability. The following reform programmes have gained priority:

- capitalization and privatization (including pension reform);
- educational reform;
- popular participation.

The popular participation law (approved in April 1994) is basically an instrument to decentralize the public sector and to overcome the administrative centralism which characterized the hierarchically organized society. Providing municipalities with management capacity, as well as a certain level of autonomy, enables coordination between indigenous communities, *campesino* communities, peripheral urban areas and public entities. The participation of the population in various stages of planning, but above all in the *Comités de Vigilancia* (supervision committees) has not only made public administration more

transparent, but also constitutes a democratic local government. Twenty percent (initially, in 1996, almost thirty percent) of national fiscal revenues are redistributed on a per capita base and transferred to the municipalities.

## **2.4 Achievements after a decade of economic adjustment**

The economic restructuring process has been monitored by the international financing institutions, by academic researchers and by policy makers. Not all politicians and social groups in Bolivia are equally enthusiastic about the results of a decade of structural adjustment. Advocates of neo-liberal policy have praised the rapid economic results of Bolivia's shock therapy. Within one year, monetary policies succeeded in putting a brake on hyperinflation, reducing public expenditure and generating more tax revenue through the implementation of the newly established value-added tax. The most striking gains have been on the external accounts and in budgetary management: official reserves have increased, external arrears have been cleared, the external debt overhang has diminished and capital inflows have increased. The achievements in the domestic economy have been less impressive: investments have been disappointing and real economic growth has been slow. Domestic savings have been falling as a percentage of GDP (van Ryckeghem and Seligmann 1996:2) and have hardly given any impetus to investment.

Academic researchers have indicated that the Washington Agenda has tended to underemphasize a number of aspects, such as government intervention to correct income and wealth distribution and to alleviate poverty, public investment in education (to foster and democratize the knowledge base of the population) and in research to improve the technology base, and measures to protect the environment (Van Dijck 1996:2 and Collas-Monsod 1995).

Within Bolivian society, opinions on the success or failure of the economic reforms vary widely. For example, the COB (which groups together labourers, *campesinos*, teachers and lower civil servants) has maintained a critical opposition to the structural adjustment programme, although it admits the need for economic stability. The COB has criticized the lack of employment generation, deteriorating labour rights and stagnating wage levels in real terms. It is critical of capitalization, since it is worried about the impact on employment and job security.

An opposing opinion is held by the association of private entrepreneurs. It argues that Bolivia has never implemented a real liberalization policy, since state enterprises continue to exist and monopolize certain markets, while regulations and restrictions imposed on the



private sector are still rigid in comparison to neighbouring countries. This has a negative impact on the international competitiveness of Bolivian companies.

The direct and indirect impact of structural adjustment on the population of Bolivia is hard to assess. Structural adjustment does not alleviate poverty directly, but aims to create an environment which enables sustainable solutions. The causes of poverty are only addressed partially and daily living conditions among the poor in the mining centres of the *Altiplano*, in the countryside and in the peripheral areas of the cities have probably deteriorated instead of improved (World Bank 1996a). With an average real growth rate of 0.6% in GDP per capita (Vos, Lee and Mejía 1996:2), it is hard to imagine that mass poverty will be overcome in the foreseeable future.

Although the social indicators have improved over the last decade, Bolivia still holds a low position on the Human Development Index of the United Nations Development Programme (UNDP): no. 113 on a list of 173, and this deteriorated during the 1988–94 period. Of the Latin American countries, only Honduras and Haiti occupy lower positions.

Some of the achievements and shortcomings of a decade of structural adjustment are listed below. Economic, monetary (see table 2.1) and social (see table 2.2) indicators illustrate the changes. Table 2.3 presents a summary of the balance of payments over the decade 1985–95.

#### *Achievements:*

The new economic policy has achieved:

- economic stability and fiscal discipline: inflation has been reduced to single digit levels; fiscal deficits have become manageable (3–6%); new capital markets have been established and there is a unified exchange rate;
- increased capital inflow resulting from the introduction of commercial bank accounts in US\$ (in 1994, 81% of all deposits and over 90% of all accounts) and high real interest rates;
- liberalization of the domestic market and international trade: price regulation and subsidies on commodities have been removed; export restrictions have been lifted. Exports show a tendency to diversify and export earnings show an increase, in particular in non-traditional export products (all extractive products);
- modest, but consolidated economic growth: the annual growth in GDP is approximately 4%, a level achieved since 1990 (see table 2.1);
- improvements in social indicators, although they continue to be below Latin American averages (see table 2.2);

- an improved balance of payments: the deficit on the balance of payments shows a declining trend, thanks to increasing export earnings, capital return from abroad and to a certain extent diminishing debt service obligations. Nevertheless, the balance of payments (see table 2.3) continues to be weak due to persistent trade deficits;
- redefinition of the role of the state and reorganization of the public administration. Decentralization of public administration has been initiated and the public sector has been trimmed down from 15 to 11% of formal employment (approximately 132,000 people). However, the public sector still amounts to 60% of total formal sector employment (Van Lindert 1996:7);
- declining dependency on the informal coca/cocaine sector. Notwithstanding its importance for e.g. the construction sector, the importance of the coca/cocaine sector decreased from 6–10% of GDP between 1985 and 1990 to less than 5% of GDP in 1993 (Van Dijck 1996:15).

One of the non-economic achievements is that Bolivia has become a country with a stable democracy.

**Table 2.1 Selected economic indicators 1985–1994**

Indicator/year	1985	1987	1990	1992	1994
% growth GDP	–1.3	2.6	4.4	2.8	4.6
per capita GDP (1980=100)	80.7	78.6	80.2	81.6	84.1
fiscal deficit (% of GDP)	7.7	7.8	4.3	4.7	3.2
inflation (consumer price index, % change)	11,749.6	14.6	17.1	12.5	7.9
exports (US\$ million)	618.5	518.7	830.7	773.8	1,106.1
official exchange rate (US\$)	450,467	2.21	3.40	4.10	4.62
dollarization (% deposits in foreign currency)		97.0	99.3	93.1	91.2
annual change in US denominated deposits	0	146.9	59.7	44.2	22.5
annual change broad money (M2)*	n.a	13.3	27.5	13.9	15.9
annual change liabilities to private sector (M3)**	n.a	54.8	48.7	37.1	21.5
savings and reserves (US\$ million)	0.34	61.5	29.7	244.8	510.2

Source: Based on data BCB, World Bank and CEDLA-ILDIS.

\*currency in circulation plus local currency deposits

\*\*deposits valued at end-of-period exchange rates

**Table 2.2 Selected social indicators 1970–1994**

Indicator/year	1970–75	1988	1991	1994	Latin America 1994
<i>Population and employment</i>					
average annual population growth rate (%), periods 1976–88, 1988–92, 1992–94		2.09	2.21	2.11	2.4
growth rate of economically active population (EAP) (%)	4.17	6.63	4.68	4.72	3.89
% EAP formally employed	36.1	46.0	27.0	28.5	na
<i>Health</i>					
total fertility rate (live births per woman)	6.5	5.0	4.8	4.8	3.1
under-5 mortality (per 1,000)	172	148	118	116	52
maternal mortality in hospitals (per 100,000)	373	201	247	207	180
life expectancy (years)	46.7	57.0	59.3	60	69
population with access to health facilities (%)	na	21	32	30	72
population with access to safe drinking water (%)	34	44	47	53	80.0
child malnutrition < 5 years (% age group)	37	na	na	28	10.0
<i>Education</i>					
adult illiteracy rate overall (> 15 years)	36.8	26.0	23.0	23.0	15.5
adult illiteracy rate female	48.6	35.0	27.7	25.0	17.2
primary enrolment rate overall (% PEE)	85.0	91.0	81.0	83.0	106
primary enrolment rate rural	na	na	74.0	74.0	88
primary enrolment rate female (% PEE)	76.0	85.0	78.0	78.0	94
Poverty Incidence based on Basic Needs					
Insatisfaction, % population			69.8		
Poverty Incidence based on Basic Needs					
Insatisfaction, % rural population			94.0	85.5	
Human Development Index					
		0.41	0.39		

Sources: CEDLA-ILDIS (1994), World Bank (1993 and 1996), UDAPSO (1993).

Note: The enrolment rates are influenced by high repetition rates, and the decline in enrolment reflects declining repetition rates. PEE=Population of school age (*Población en Edad Escolar*).

**Table 2.3 Summary of the Balance of Payments 1985–1994 (in US\$ m)**

Items/year	1985	1988	1990	1992	1994	1995
<b>Current account balance</b>	-493.6	-490.5	-371.4	-627.5	-218	-294
1. Balance of goods and services						
1.1 Trade balance	-62.5	-225.3	-132.0	-447.1	-309	-352
1.1.1 exports (fob)	628.3	542.4	830.7	643.1	970	1041
1.1.2 imports (cif)	-690.8	-767.7	-962.7	-1,090.2	-1,279	-1,394
1.2 Balance of services	-23.0	-18.0	-19.9	-10.1	70	22
1.2.1 receipts	93.2	130.7	147.7	176.8	258	225
1.2.2. payments	-116.2	-148.7	-167.6	-186.9	-188	-203
2. Factor services	-422.6	-260.0	-241.1	-193.0		
3. Transfers	14.5	12.8	21.6	22.7	21	35
<b>Capital Account balance</b>	522.3	314.5	394.5	532.6	208	216
4.1 official transfers	59.8	123.9	153.4	223.9		
4.2 foreign investments	10.0	30.0	35.0	86.0	83	137
4.3 medium-term and long-term capital	24.8	164.6	76.8	202.8	125	79
4.3.1 disbursements	199.3	404.7	373.4	454.2	360	379
4.3.2 amortizations*	-174.4	-240.0	-296.6	-251.4	-235	-301
4.4 other flows	427.7	-4.0	129.3	19.9		
5. Exceptional financing**	..	146.2	75.8	132.0	134	202
Change in reserves***	-28.7	29.8	-98.9	-37.1	-123	-124

Source: World Bank 1994. Data 1994–95: IMF.

\* only paid amortizations

\*\* includes unpaid amortization, default and debt relief

\*\*\* the balance of payments is always zero; the difference is the change in reserves; a negative figure indicates an addition to the reserves.

### *Shortcomings:*

After a decade of structural adjustment, the following shortcomings can be noted:

- Slow economic growth: per capita growth was approximately 0.5%–1% per annum between 1985 and 1995 (Vos, Lee and Mejía 1996:2; World Bank 1996a).
- No real structural change has taken place in the productive sectors: the structural adjustment of the economy is not reflected by fundamental changes in the composition of the GDP. On the contrary, the economy concentrates on one single leading sector: the exploitation of natural resources (extractive products). Mining products (including gas and hydrocarbon) continue to be the most important export earners, while ‘new’ export products (timber and (semi-) precious stones) are also non-renewable natural resources (Morales 1990). The manufacturing industry, transport and services show little

dynamism. The limited size of the domestic market, the low purchasing power of its population, the fact that the country is landlocked, the hostile geography and a deficient transport infrastructure complicate efficient and competitive industrial development. Existing industry depends on external inputs and lacks technological sophistication. The flourishing construction sector, which depends largely on narco-capital, reflects the lack of confidence in investment opportunities in the productive sectors (Morales 1990). The share of the agricultural sector in GDP dropped from 23% in 1985 to 16% in 1995 and deregulation and liberalization of the market have had little or no positive effects on the agricultural sector in general or on the *campesinado* subsector in particular (Van Niekerk 1994).

- Notwithstanding the higher capital inflow, there are insufficient domestic savings: obviously, domestic savings were low during the period of hyperinflation, but during the 1985–92 period they continued to be very modest. Private local savings in 1992 accounted for only 14% of the demand for credit. Repatriated narco-dollars were invested directly in the construction sector. Since the early 1990s domestic savings have been falling as a percentage of GDP from an average of 10.6% for the 1988–91 period to 7.5% in 1992–93. More than ninety percent of savings are either in American dollars or can be changed against dollars. This requires high liquidity in the domestic banks. In addition, the Central Bank has sought to restrict credit to commercial banks to help attain its targets for the growth of money and international reserves. Both cause higher than normal interest rates, which is an impediment to investment. Clients have little confidence in the banking system.
- The high degree of dollarization not only limits the effectiveness of active monetary policy, but also reflects a lack of confidence in both the domestic currency and general economic stability (World Bank 1996b:3).
- Public investment continues to depend on external financing and gross investment on the net transfer of resources: despite the fall in domestic savings over the 1988–93 period, the investment ratio achieved an increase from 13.5% in 1988–91 to 16.5% in 1992–93, resulting from a rising net transfer of resources to Bolivia. Only half of this increase has been translated into additional investment due to limited absorption capacity to translate financial transfers into physical investment projects. Financial transfers have increased in volume, but an increasing share spills over into consumption (van Ryckeghem and Seligmann 1996:2–5). The composition of imports confirms this trend (increasing imports of consumption goods).
- Low private investment levels (a direct consequence of the lack of credit facilities). Private investment (either with foreign or domestic capital) have not been made to such an extent that modifications in the composition of the GDP can be observed. International capital has only been attracted (temporarily) by the capitalization of public enterprises and by the exploitation of natural resources. Overall private investment by the private sector continue to be low (Jenkins 1995).



- Insufficient generation of formal employment: employment is the principal solution to poverty and could be stimulated by economic reform, but the generation of permanent employment has been insufficient. The labour force in Bolivia increases annually by 60,000 people, while the economy generates on average 43,000 new jobs. Of these only 25% is accounted for by wage-labour, the remaining 75% being filled by the self-employed (CEDLA-ILDIS 1994). Between 1985 and 1992 the percentage of the economically active population employed in the informal sector, in traditional agriculture or in domestic service increased from 54% to 73%. The ‘new poor’, the class of dismissed miners and civil servants, did not find alternative formal employment and became self-employed in the informal sector.
- Unequal distribution of benefits: income levels in the *Altiplano* have deteriorated both in absolute and relative terms (World Bank 1996a). The small per capita annual growth is generated by white-collar workers in the public and non-traded goods sectors (which is the opposite of what the structural adjustment process should achieve) and not in the traded and private goods sectors. Households headed by blue-collar workers received less income (in terms of constant Bolivianos) between 1989 and 1993, and the inequalities are increasing (Vos, Lee and Mejía 1996:10–13). Over 70% of the total population and over 90% of the rural population cannot satisfy their basic needs (World Bank 1996a).

**Box 3. Measuring poverty in Bolivia**

Poverty relief can be formulated as the alleviation of the situation of people who live below the poverty line and who have little or no access to resources such as land and capital, to basic infrastructural and social services or to the processes of decision making (Ministry of Foreign Affairs 1991).

This definition addresses the principal causes of poverty in Bolivia, such as

- poorly developed human capital (low levels of education; bad health conditions);
- lack of physical assets (secure access to good land, technology);
- lack of infrastructure.

In Bolivia poverty is measured by means of two indexes:

The Unsatisfied Basic Needs Index measures poverty as the share of households with unsatisfied basic needs. It encapsulates the degree of satisfaction of basic needs with regard to minimum standards for quality of and access to housing, water supply and sanitation, energy, education, and health.

The Headcount Index measures the proportion of households with income levels below the consumption-based poverty line, which reflects the expenditure necessary to buy a 'minimum food basket' and other necessities.

Sources: World Bank 1990:23 and 1996; Ministry of Foreign Affairs 1991.

The structural adjustment programmes in Bolivia did not directly address social sector and direct poverty-related issues. These should be dealt with either through specially designed sub-programmes or separate sectoral operations, such as the social funds (World Bank 1996b:15). This can be illustrated by the effects of structural adjustment on the *campesino* subsector, which was not favoured, for the following reasons:

- public investment in smallholder agriculture, already very low before 1985, came to a standstill;
- agricultural development policies (at least up to 1995) and public facilities were focused on capital intensive export oriented agricultural enterprises;
- credit facilities for smallholder production were discontinued;
- agricultural research and extension services were minimized and did not provide services to the *campesino* subsector;
- the liberalization of the market enabled the import of food commodities from neighbouring countries with more favourable (climatic, environmental) production conditions;
- food imports and food donations during the first years of the adjustment programme devastated food production by smallholders for the market. Smallholders opted to produce for their own consumption only;

- the deregulation of labour rights affected *campesinos*, who were often employed part-time as wage workers by commercial agricultural enterprises;
- the terms of trade between agricultural products and manufactured products deteriorated, affecting the already low purchasing capacity of smallholders (World Bank 1996a and Urioste 1992).

## **2.5 Macroeconomic development and external support**

Bolivia has been remarkably successful in attracting external financial support for its reform programmes. The IMF, World Bank, IDB and many bilateral donors have contributed with concessional loans, donations and other instruments, such as debt relief.

During the decade 1985–95, public sector investment in reforms, infrastructure and social services were financed almost entirely externally. Multilateral loans and bilateral aid financed 73% of total costs during the first decade.

The Netherlands has provided political and economic support to Bolivia's structural adjustment programme using a variety of instruments, such as balance of payments support by the delivery of import goods, by debt relief activities and by budget support to the safety net facilities and educational reform. The support was provided either through the bilateral aid programme, or additional (for example, debt restructuring in the Paris Club). It was channelled either directly to the Bolivian government or through co-financing arrangements with the World Bank.

During the period of military regimes, the Bolivian government did not receive bilateral donations of any magnitude. International cooperation was channelled through non-governmental organizations. Since a democratic government came into power in 1982, both project aid and programme aid to Bolivia increased rapidly. The international flow of donations focused on improvement of the balance of payments and on the food supply. The most important sources of programme aid were the United States (mainly with food aid), the European Community (food aid), Japan (fertilizers) and the Netherlands. The balance of payments support to Bolivia reached its peak in 1991 at US\$ 170 million. In later years it decreased (1993: US\$ 55 million).

Bolivia has never formulated an explicit policy with respect to balance of payments support, although it has had certain general policy outlines, such as reducing dependency on food donations and a preference for productive imports (PNUD 1995). Since 1993 Bolivia has pursued a general policy of reducing external donor aid for imports and food, focusing on obtaining general support for its macroeconomic policy ('policy lending'). Import support is only considered if it benefits specific sectors. In the Bolivian view



import support, such as fertilizer aid and medicine aid, are not instrumental in reducing shortfalls on the balance of payments (in contrast to other instruments, such as debt relief) but a form of sector-specific programme aid.

Therefore, according to the Secretariat for Public Investment and External Financing, donations in kind should comply with two conditions:<sup>3</sup>

- the sectors to be benefited should have priority within the overall ongoing structural adjustment programme, and
- they should support and strengthen the objectives in the sector involved.

Social sector reforms, such as educational reform, as well as the implementation of the social funds, are mostly donor funded. The Bolivian government aims to attract as much external donor assistance as possible to the social sector programmes.

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<sup>3</sup> Interview SIPFE, 1996.



## 3 The Netherlands programme aid to Bolivia

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### 3.1 Concepts

Development assistance can be subdivided into voluntary contributions to international organizations, project aid and non-project aid. Non-project aid might be either non-structural (temporary) food aid,<sup>1</sup> humanitarian aid or programme aid. Different terms—programme aid, balance of payments support, import support and commodity aid—are often used interchangeably. However, as shown in figure 3.1, balance of payment support is a sub-set of programme aid and import support is a sub-set of balance of payments support. Balance of payment support might be given in foreign currency (budget support, co-financing of structural adjustment loans), debt alleviation or goods (commodity aid). The definition given by the DAC’s “Principles for Programme Assistance” is “Programme assistance consists of all contributions made available to a recipient country for general development purposes, i.e. balance-of-payments support, general budget support and commodity assistance, not linked to specific project activities” (OECD 1991:5). Programme aid is basically oriented to support the socioeconomic policy of the recipient country, by reducing its foreign exchange deficits (DGIS 1994:2). A further distinction is made between general programme assistance and sector programme assistance (OECD 1991:21).

Usually, programme aid generates financial resources in local currency (by selling forex or goods), the ‘counterpart or countervalue funds’<sup>2</sup>. Import support generates financial resources directly, because the recipients of commodities are usually required to pay the equivalent value in local currency to the government of their country. By doing so, import support at the same time constitutes budget support (IOV 1989b:1).

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<sup>1</sup> Structural food aid, aimed at supporting the national economy and sold to traders, so generating countervalues to be used in support of the public budget, is considered to be programme aid.

<sup>2</sup> Although the DAC uses the term *counterpart* funds indicating the local currency generated by the monetization of donated import goods, here the term *countervalue* funds is preferred in order to avoid confusion with the concept *counterpart contribution*, which indicates the recipient country’s support (financially or otherwise) to a particular activity or project.

Programme aid can be given either bilaterally (e.g. import support) or multilaterally (co-financing of structural adjustment programmes or multilateral debt relief).

*Balance of payments support* was a term used frequently in the 1980s for alleviating foreign exchange deficits, as well as for import support (or commodity aid), through the donation of basic goods. In this view, balance of payments support aimed to reduce deficits in the current account of the balance of payments. The support could be either direct (by replacing imports that would have taken place anyhow with donated goods) or indirect (by increasing revenues resulting from the export of outputs or reduction of the imports of these goods). Since 1991 the term balance of payments support has mainly been used for financial transfers of foreign currency (e.g. forex auctions).

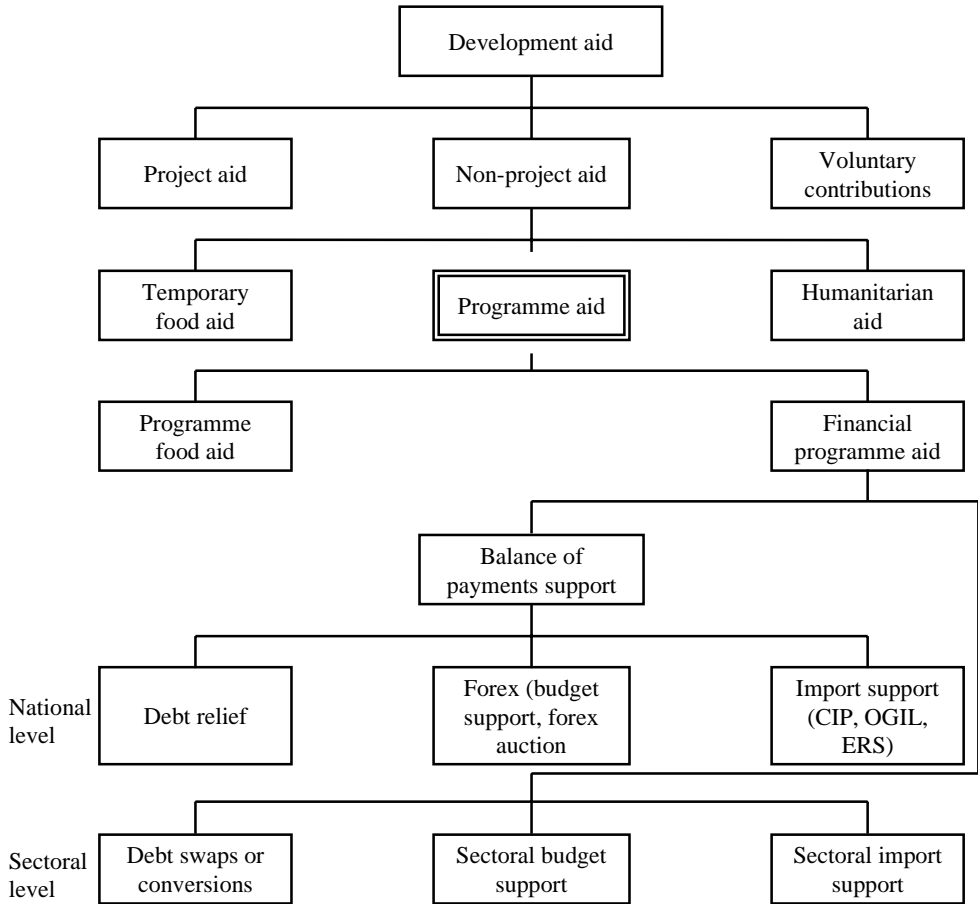
*Import support* can be defined as “development aid in the form of imported commodities that are not directly used for specific aid projects” (IOV 1989b:1). Since 1987, the main objective of general import support is to reduce shortages of imported goods and increase the existing production capacity within the economy. *Sectoral* import aid is aimed at a specific sector, which is selected according to its priority for the recipient country and/or for the Netherlands policy on development cooperation. Import support can be implemented in various forms, such as the Commodity Import Programme (CIP), the Open General Import License System (OGIL) and the Export Retention Schemes (ERS).

*Debt relief* is a form of programme aid not tied to specific goods or services. It may comprise of debt forgiveness (or restructuring) of either (part of) the principal, or servicing obligations (amortization and interest payments). It is a form of balance of payments support, since foreign exchange is being saved, and the funds reserved for servicing the debt can be used for other purposes. Debt relief is often targeted to specific debt obligations (for example, commercial debt).

Budget support includes the donation of foreign exchange, which is sold to raise local currency to support the government budget. *Sectoral budget support* aims at supporting specific components of the public budget, including financial support to those organizations charged with implementation of these components. According to pre-established policy agreements, the countervalue funds have to be used within the public budget to support specific programmes on a sectoral or subsectoral level. Sectoral budget support is a rather specific kind of programme aid, since the principal policy objective is sustainable poverty alleviation, rather than (only) support for the macroeconomic policy of the recipient country (Ministry of Foreign Affairs 1996:4).

In the Dutch development cooperation, the cofinancing of structural adjustment loans is a multilateral form of programme aid, which is different in its implementation channel and

procedures. The cofinancing with the World Bank of the structural adjustment credits to Bolivia has not been subject of the present study.



**Graph 3.1 Programme aid**

### **3.2 The Netherlands policy on programme aid**

#### *General policy on programme aid*

The Dutch policy on programme aid has its origin in the balance of payments support instrument introduced in 1975 as part of a then new budget category ‘direct aid to the poorest countries and groups’. In 1976 a special programme was created to finance import goods for the poorest countries, with its own budget category (from 1977 onwards). The programme aimed at providing those countries that were hardest hit by economic crises with one-off injections of resources suitable for rapid disbursement. Balance of payments support funds were allocated to a number of countries, originally on an annual and later on a two-yearly basis and did not form part of any longer-term policy concerning those countries.

Initially, it was required that the aid be used to fund vital imports with a view to bridging resource shortfalls of a temporary (cyclical) nature; from 1986 onwards account was also taken of the extent to which the policies of recipient countries were geared towards achieving enduring economic recovery. In practice, this implied that the recipient country should have started a process of economic adjustment, normally in accordance with the policies recommended by the IMF and the World Bank.

In many countries trade liberalization has improved the balance of payments and diminished the need for commodity aid. In 1991, the budget for the balance of payments support programme was curtailed drastically and since then almost all resources have been used for debt relief activities and foreign exchange allocations (e.g. forex auctions).

More precise policies and criteria on programme aid were developed during the early 1990s. The arguments for providing programme aid changed: while the prevailing argument for programme aid before the mid 1980s was to reduce temporary deficits on the balance of payments resulting from the international energy and debt crisis, there was a growing awareness that balance of payments problems were of a more structural kind and that only a process of economic reform could provide lasting solutions.

From that time on, the Dutch programme aid was to be ‘policy based’ and provide support to structural adjustment programmes. More recently, not only economic reforms, but also sustainable development and institutional strengthening, in particular of local governments and activities promoting people’s participation, are criteria taken into consideration (DGIS 1994:3). The level of Dutch support now depends on the ‘financing gap’, as well as on the assistance offered by other donors.

The coordination of donors' activities is therefore essential in programme aid (DGIS 1994:31). Consultations should take place between donors on the basic assumptions, conditionalities and financing arrangements of the support. The Consultative Group headed by the World Bank and the Paris Club on debt relief have been the principle platforms for this purpose.

Generally, the provision of programme aid forms part of the policy dialogue between the Netherlands and the recipient country. The socioeconomic policy and the implementation capacities of the recipient country determine the effects of programme aid. Appraisal of the macro policy pursued and, if applicable, of planned adjustment measures is an essential element in decisions concerning this type of aid. Regarding the expected effects on target groups or other focal points of development policy, the balance of payments programme states only that it should not be in conflict with the objective of poverty alleviation.

#### *Policy on programme aid to Bolivia*

The Netherlands wish to assist Bolivia in 1982 was hindered by the absence of a bilateral cooperation programme between the two countries. The balance of payments support programme provided the opportunity for a relatively rapid assistance by means of commodity aid. Fertilizers and medicines were donated and, until 1987, programme aid continued to be the principal instrument of development assistance by the Netherlands to Bolivia.

Programme aid has been financed from two categories of the Netherlands budget for development cooperation: the balance of payments support programme and (after 1987) the regular programme for the Andes Region. In principle, the budget for the balance of payments support programme was considered to be additional to the country and regional budgets (policy documents did not refer to the necessity of integration with the country or regional policies). The Netherlands policy on programme aid applies to both budget categories, but the policy documents for the Andes Region also made references to programme aid. Although there is no essential difference in the policy between the two budget categories, criteria could be applied differently.<sup>3</sup>

The intensity with which the various instruments are used has changed over time. While in the first half of the 1980s import support was the most commonly used instrument, debt relief subsequently became more predominant. Co-financing arrangements with the

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<sup>3</sup> For example, in 1990 DGIS applied the criteria more strictly, which implied that commodities aimed at the social sectors (i.e. medicine aid) could no longer be financed from the balance of payments support programme, since these donations did not contribute to the removal of bottlenecks in the productive capacity of the recipient country. Financed from the Programme for the Andes Region, medicine aid continued as sectoral import support. Ref: Evaluation ex-ante of medicines supply 1990 (BEMO). August 27, 1990.

World Bank to support structural adjustment programmes and sectoral budget support became important instruments as well, and were predominantly financed from the regular country and regional budgets.

### *Policy on countervalue funds*

The proceeds (in local currency) from the sale of donated goods (monetization) or the foreign exchange paid by the private sector to the government of the recipient country are the called countervalue funds. Since the start of the balance of payments support programme, the policy on countervalue funds has remained largely unaltered.

It has been DGIS' general policy that countervalue funds flow into the public budget and DGIS does not exert any control over the use and destination of the funds. In the 1984 "Review of Bilateral Development Cooperation Policy" an exception was made for instances in which the recipient government itself proposes that countervalue funds be paid into a special account for financing the local costs of bilateral projects.

In the practice of import support to Bolivia, agreements were made regarding countervalue funds in order to ensure that specific policies were supported by an increase of corresponding items on the public budget. For example, in the case of fertilizer aid or medicine aid, the condition used to be that countervalue funds should be used to benefit the respective sector directly. Although this was not standard policy, DGIS could request that the generation of these countervalue funds be audited. In the case of Bolivia audits on the generation of countervalue funds has been a condition from the beginning.

The OECD (1991:48) has established the following principles for the use of countervalue funds:

- their destination should be planned in advance;
- the user should benefit from a rapid disbursement procedure, and
- they should be used for on-budget expenditures only.

In Bolivia, various conditions were attached to the use of countervalue funds, as will be detailed in chapter 4.5.

### **3.3 Overview of Dutch programme aid to Bolivia 1982–1995**

An overview of the Dutch programme aid to Bolivia during the period 1982–1995 is provided in table 3.1.



**Table 3.1 Overview of Dutch programme aid to Bolivia 1982–1995**

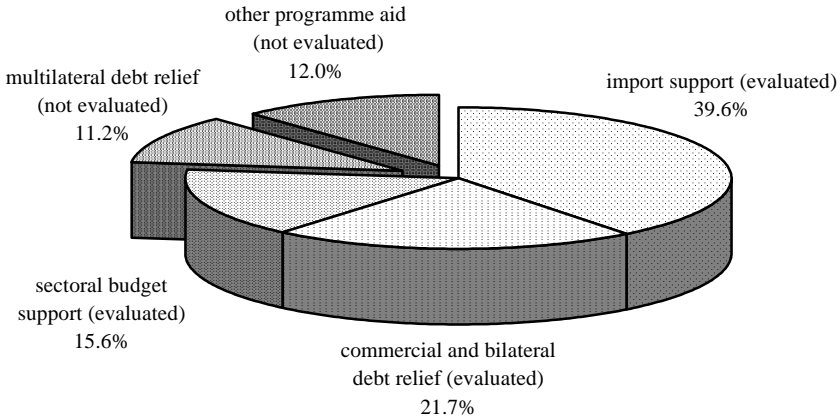
Year or period	Activity	Disbursement (Dfl. mln)	Implemented by
<b>a. Import support</b>			
1982/83	supply of fertilizers and insecticides	10.0	Agricultural Bank of Bolivia
	supply of medicines	4.0	Min. of Health
1984	supply of fertilizers and insecticides	12.8	Agricultural Bank of Bolivia
	supply of medicines	0.8	Min. of Health
	delivery Fokker F-27	7.0	Lloyd Aéreo Boliviano
1986	supply of Fokker spareparts	6.5	LAB and TAM
	supply of fertilizers and insecticides	8.0	Min. of Agriculture
	supply of lamps SL Philips	3.0	Min. of Planning and Coordination Electricity Company, FIS
	reimbursement pipes YFPB	11.0	Min. of Planning and Coordination, Min. of Agriculture
1988/89	supply of fertilizers	11.4	Min. of Planning and Coordination, Min. of Agriculture
1990/91	supply of fertilizers (1991–93)	14.7	Min. of Agriculture, Min. of Finance (DIFEM)
	supply of agricultural equipment	3.5	Min. of Finance (DIFEM)
	supply of medicines (1991–95)	4.0	World Health Organization / Min. of Human Development
Total import support		96.7	
<b>b. Debt relief</b>			
1987	direct buy-back commercial debt titles	4.5	NMB bank
	buy-back commercial debt titles	4.8	IMF Trust Fund
1988	buy-back commercial debt titles	10.0	IMF Trust Fund
1989	buy-back commercial debt titles	20.0	IMF Trust Fund
1990	payment bilateral debt service*	8.5	
1992	buy-back commercial debt titles	5.0	World Bank co-financing: IDA debt reduction facility
1995	multilateral debt relief	17.9	World Bank, IDA and IBRD
1995	multilateral debt relief	9.4	IDB
Total debt relief		80.1	

\*Bilateral debt stock and debt service reduction totalled approximately Dfl. 41.8 million resulting from the Paris Club I-VI negotiations. Dfl. 8.5 million were financed by DGIS.

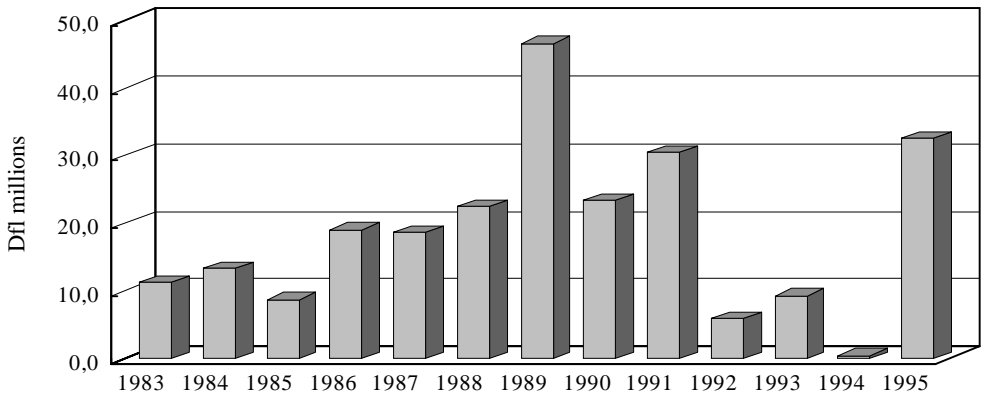
Table 3.1 continued

<b>Year or period</b>	<b>Activity</b>	<b>Disbursement (Dfl. mln)</b>	<b>Implemented by</b>
<b>c. Support to safety nets</b>			
1986–90	support Social Emergency Fund	34.0	World Bank co-financing; Min. of Finance
1991–93	support Social Investment Fund	3.5	World Bank co-financing; Min. of Finance
1992–	Social Investment Fund	0.4	Min. of Health PROISS
Total safety nets		37.9	
<b>d. Other programme aid</b>			
1991	Co-financing second Structural Adjustment Credit	19.1	Min. of Planning and Central Bank; World Bank co-financing
1991–94	support Smallholder Development Fund	4.6	FDC
1994–95	support National Environment Fund	0.5	FONAMA
1995	Educational Reform	5.0	Min. of Education, World bank co-financing
Total other programme aid		29.2	
<b>e. Overview programme aid 1982–95</b>			
<b>Component</b>	<b>Dfl. million</b>	<b>% total</b>	
Total import support	96.7	39.6	
Total debt relief	80.1	32.8	
Total social funds	37.9	15.6	
Total other programme aid	29.2	12.0	
Total programme aid 1982–95	243.9	100.0	

The percentage distribution of disbursements by category of programme aid is presented in graph 3.2, while the annual distribution of disbursements (of all categories together) is presented in graph 3.3. Note that although preparations for programme aid started in 1982, the first disbursement took place in 1983.



**Graph 3.2 Distribution of disbursements by type of programme aid 1982–95**



**Graph 3.3 Annual disbursements to programme aid, 1982–95**

### 3.4 Procedures for the procurement of goods and services

Up to 1991 the balance of payments support programme consisted of donations, usually in the form of commodity aid. Procedures for programme aid were different from those applied to projects. On the basis of macroeconomic and socioeconomic eligibility criteria, DGIS drew up annual lists of countries that would receive balance of payments support. The financial resources were committed and the donation was offered to the recipient country, while the criteria for using the donation were spelled out. After acceptance by the recipient country, specific demands were formulated. Supplies had to come from either the Netherlands or any eligible source country (ESC). Financial disbursement occurred

through the Netherlands Investment Bank for Developing Countries (NIO) on behalf of the recipient country. Appraisal of the requests for using the committed resources was conducted by the Ministry of Foreign Affairs in The Hague.

The import support was implemented according to pre-established procedures, laid down in the DGIS guidelines for procurement. These guidelines, originally agreed to in 1975 in the framework of the DAC, were modified in 1985 and 1992,<sup>4</sup> in accordance with internationally agreed procedures.

With the exception of the first donations (1982/83), DGIS always required a formal application request by the Bolivian authorities, in which they detailed the use of the funds allocated. On various occasions, the Bolivian authorities changed their request according to the needs of the moment (for example, the buy-back of commercial debt). In other instances, they had to adjust the requests, because DGIS could not honour them (e.g. the request for veterinary equipment).

In the case of import support, DGIS required only an ex-ante assessment with respect to the final destination of the goods to be imported, while the countervalue funds could be used freely within the public budget (DGIS 1994:21, 24)

The policy documents show a reluctance to target and manage the balance of payments support or the countervalue funds. However, in the 1987–95 period an expert attached to the Netherlands Embassy was charged with monitoring the balance of payments programme in Bolivia, in particular for the fertilizer aid.

After his arrival 'Letters of Implementation' were drafted for each supply of goods, stating the objectives, responsibilities, criteria, distribution, price setting, and the expected generation of countervalue funds. These Letters documented the purpose of the import support, but formally they went beyond the Dutch policy requirements (i.e. they also laid down the conditions for the use of the countervalue funds). The presence of this expert at the Netherlands Technical Assistance Office (MCTH) (later on, the Netherlands embassy in La Paz) was of utmost importance for the organization of programme aid, in particular the fertilizer aid.

Until 1985, the source country for donated goods was normally the Netherlands (i.e. the supply of goods was tied). After that, 'partial tying' was adopted, meaning that the source country could be either the Netherlands, or any 'eligible source country' (ESC). Lists of ESCs are published annually by Ministry of Foreign Affairs and the Netherlands Ministry

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<sup>4</sup> For details on procurement guidelines see e.g. *Fertiliser Aid* (IOV 1995:91–100).

of Economic Affairs. Sometimes, the requirement that the goods should be produced in an ESC hampered implementation, as was the case with veterinary equipment, which could not be obtained in any of these countries. In other cases, the requirement was interpreted in a rather flexible manner, e.g. in the case of the donation of essential drugs.

With the exception of some cases of direct procurement ('letting contacts'; i.e. Philips light bulbs, the airplane and spare parts), procurement was carried out via competitive bidding. The tenders were invited by the Food Supplies Purchasing and Sale Section (VIB) of the Ministry of Agriculture, Nature Management and Fisheries in Hoensbroek. With respect to fertilizer purchases, they usually invited four or five enterprises, while for other goods, shortlists were not always available, and many enterprises presented a bid (in 1984, 31 companies tendered for medicine supplies).



## 4 Import support programme

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### 4.1 Overview of the Dutch import support programme to Bolivia

The import support programme to Bolivia started in 1983 financed with resources from the 1982 balance of payments support programme. Between 1983 and 1991 six different commitments were made to Bolivia from the balance of payments support budget. Of these, five were used for import support and one for the buy-back of commercial debt. In the case of fertilizers, the import support programme was extended up to 1993/4. After 1990 it was policy that 30% of all bilateral aid to Bolivia should be programme aid (DGIS 1990a).

Over time, the Bolivian authorities presented a wide range of requests for use of the balance of payments support resources (see Annexe 2, table A.1). Not all the requests were approved by DGIS. Table 4.1 details the import support programme.

Of the total commitments of Dfl. 134.0 million made from the balance of payments support budget, Dfl. 92.7 million (69%) were used for import support or for the reimbursement of goods already imported (an additional Dfl. 4.0 million was financed with resources from the regular budget for the Andes Region). Approximately Dfl. 56.9 million were used for fertilizer aid. The remainder of the balance of payments support budget was used to buy back commercial debt titles. In terms of American dollars, Dutch import support amounted to about US\$ 40 million (US\$ 24.1 million in fertilizer aid). The Netherlands annual contribution represented on average 5% (up to 14% in 1993) of all external support for Bolivia's balance of payments (PNUD 1995).

The principal import support by the Netherlands consisted of medicines (section 4.2), fertilizers (section 4.3) and other supplies (section 4.4), which will be detailed below.

**Table 4.1 Import support programme**

<b>Year</b>	<b>Import support</b>	<b>Disbursements for imports (Dfl. million)</b>	<b>exchange rate Dfl.-US\$</b>	<b>Amount in million US\$</b>
1982/83	fertilizers and insecticides	10.0	2.85	3.5
	medicines	4.0	2.85	1.4
1984	fertilizers and insecticides	12.8	3.32	3.9
	airplane Fokker F-27	7.0	3.32	2.1
	medicines	0.8	3.32	0.2
1986	spare parts Fokker F-27	6.5	2.45	2.6
	fertilizers and insecticides	8.0	2.45	3.3
	low-energy light bulbs	3.0	2.45	1.2
	reimbursement of invoices YFPB	11.0	2.45	4.5
1988/89	fertilizers	11.4	2.12	5.4
1990/91	fertilizers	14.7	1.81	8.1
	agricultural equipment	3.5	1.81	1.9
	medicines	4.0	1.81	2.2
<b>Total</b>		<b>96.7</b>		<b>40.3</b>

Source: Based on DGIS data.

## **4.2 Medicine aid**

### **4.2.1 Background**

Medicine aid was provided as a component of the first balance of payments support programme to Bolivia in 1982/83 and of the second one in 1984. It was later financed with resources from the regular programme for the Andes region in 1990/91.

#### *The first supply of medicines*

In 1982 public health care in Bolivia was the responsibility of the Ministry of Social Security and Public Health (MPSSP), which provided (almost) all medical services and medicines free of charge. Since most medicines had to be imported, but the government lacked resources (in particular foreign exchange), the supplies covered less than 1.5% of the demand. Most hospitals and health centres in the country did not keep any stock of medicines. In 1982 the government of Bolivia requested to use funds from the first balance of payments support for the procurement of medicines. The DGIS imposed the condition that the medicaments should figure on the "International Catalogue of Medicine" of the World Health Organization (WHO). One problem was that only 20% of the requested medicaments could be obtained from either the Netherlands or an ESC. In January 1984, the Ministry of Economic Affairs granted permission for the procurement



of pharmaceutical products originating from non-ESCs, as long as they were purchased from the International Dispensary Association (IDA) in Amsterdam. The medicines were supplied between May 1983 and July 1984. The majority were to be distributed freely through the tuberculosis control and the malaria eradication programmes.

### *The second supply of medicines*

Also in 1984 the Bolivian authorities requested permission to use part of the funds to procure medicines. However, the Netherlands embassy advised DGIS that the donation of a Fokker airplane had priority and that additional medicines would not be necessary, since a report by the National Institute of Medical Supplies stated that 40% of the medicines supplied were still in stock. This was rather obvious since most of the medicaments had just arrived in Bolivia. The Bolivian application was appraised by an external expert, who—in the context of medicine aid—introduced the concept of essential drugs (without brand name and composed only of the active elements, registered in the “Shortlist of Essential Drugs” of the WHO). Since the donation of an airplane was approved (see section 4.4), medicines could only be procured from a balance on the 1982/83 (Dfl. 100,000), and 1984 (Dfl. 750,000) budgets. Medicines totalling Dfl. 749,200 (US\$ 240,000) were procured and targeted to free of charge health care programmes (mother and child programme, disparasitisation, tuberculosis, and intensive therapy at the Children’s Hospital).

### *The third supply of medicines*

A new request for medicine aid from the 1989/90 balance of payments support budget was submitted, which fitted into the MPSSP’s new ‘Action Plan’, encompassing a National Supply Policy. The National Programme of Essential Drugs of Bolivia (PNMEBOL) formed part of this policy. However, Bolivia later decided to use the balance of payments support budget for the second buy-back of commercial debt. In the meantime, the WHO-Pan American Health Organization (PAHO) prepared an Essential Drugs project, to be funded by the Netherlands. Due to incompatibility of bidding procedures between the PAHO and DGIS, it was decided that medicines would be procured directly by PAHO. Initially, the supply of essential drugs was specified as a component of the 1990/91 balance of payments support for a total of Dfl. 4.0 million, to be implemented over five years, from 1990 to 1995. Due to a stricter application of the procedures for balance of payments support, essential drugs no longer qualified, since these imports could not comply with the requisite to optimize the use of installed productive capacity in the recipient country (Recommendation to the DGIS Projects Commission. August 22, 1990). In October 1990, Dfl. 4.0 million were made available from the budget for the Andes Region.

To supplement this, in 1991 DGIS approved a contribution of Dfl. 4.4 million to the project PNMEBOL for a period of four years, to be implemented by WHO/PAHO. The main objectives of this project were the establishment of a national policy on essential drugs, the rationalization of the distribution of medicines, the strengthening of quality control systems, and training. The following table summarizes the medicine donations:

**Table 4.2 Summary of medicine supplies**

<b>Year</b>	<b>Budget in Dfl.</b>	<b>Disbursements in Dfl.</b>	<b>Disbursements in US\$</b>	<b>Budget source</b>
1982/83	4,000,000			balance of payments support
1983		1,988,014	697,548	
1984	850,000	1,811,557	564,348	balance of payments support
1985/86		749,217	240,133	
1990	2,000,000	2,000,000	1,190,654	programme Andes Region
1991	2,000,000	2,000,000	1,085,746	
total	8,850,000	8,548,788	3,778,429	

Source: Based on DGIS and PAHO data.

#### ***4.2.2 Organization, distribution, prices and market of medicines***

##### *Organization and distribution*

Medicine aid to the public sector was initially coordinated by the MPSSP, later replaced by the National Secretariat for Health (SNS), under the Ministry of Human Development. Over time, various institutions have been responsible for the medicine aid, most recently, the Centre for Provision of Supplies (CEASS).

The first and second import support programmes were implemented during a chaotic period in the country. Health policy at the time was focused on providing free health care to the population. Resources allocated to public services were eroded by inflation, leaving the social sector in a critical condition, unable to solve its problems. The coverage of health facilities was limited, not reaching the remote areas and suffering from urban centralism. The distribution of medicines was deficient due to a lack of communication facilities, logistical systems and distribution policies. During the second supply, the distribution focused on four specific free programmes.

The third donation was directly linked to a project with a pre-defined policy. Macroeconomic conditions had improved; the PAHO provided technical assistance and training,

and coordinated many activities in the health sector, while the FIS constructed deposits and stores. This all contributed to a better distribution, reaching 75%–80% of the population. By 1995, the national distribution centre CEASS had a decentralized system with 6 regional supply units.

### *Prices*

Up to the start of the new economic policy in 1985, the Bolivia's health policy aimed at making free health services, accessible to all strata of the population. In 1984, of the 22 products with official prices, 18 were sold at unit prices below US\$ 0.01, while the remaining 4 products were sold at less than US\$ 0.20 per unit (at the official exchange rate). Medicines supplied by the Netherlands and delivered up to May 1984 were worth US\$ 584,418, but generated countervalue funds equivalent to US\$ 5,026, which implies that for each US\$ 100 of medicines sold, US\$ 99.10 were subsidized. Medicines in the second donation were destined for special programmes and all delivered free of charge. Of the medicines supplied during the third programme, only part was delivered free of charge through WHO/PAHO (e.g. vaccines), but the vast majority were sold to patients. In late 1995, only two products (paracetamol and cotrimaxol) continued to be distributed free. Revenues from sales are deposited on a special account aimed at fostering a revolving fund.

Formally the CEASS Board has to set selling prices, but in practice, they are determined by the management. Prices were set in 1991 and not adjusted or indexed until 1994. Initially, selling prices were set on the basis of cost price plus international transport costs, local freight, but excluding operational costs. In 1992, the profit margin on sales was minus 44.29%. After price adjustments in 1994, the margin increased to minus 11%, (SNS/OMS/OPS 1995), while (according to CEASS) a new price increase in 1995 would allow a recovery of 98.5%.

One of the reasons for the negative profit margin was that the public health services at departmental and district levels emphasized the objective of 'providing access to essential drugs at affordable prices to the low income population', while the reasons for cost recovery were hardly understood (SNS/OMS/OPS 1993).

### *The market*

There are three main actors on the market for medicines in Bolivia:

- the commercial private sector: laboratories, distributors, pharmacies and physicians. The commercial private sector (pharmacies) supplies imported goods and some other drugs produced in national laboratories to the urban market and the main rural centres.

During the 1980s, this sector commercialized some 3,500 pharmaceutical products without (adequate) control of prescriptions, quality and prices. In 1996, there were 3,100 pharmaceutical products available on the commercial market.

- the non-commercial private sector (non governmental organizations—NGOs—and the church). The non-commercial private sector imported (or received donations) in small quantities of medicines for specific projects, e.g. for health facilities managed by religious organizations. The majority of these projects were semi-autonomous, without control and outside the norms of the MSPPS. The non-commercial private sector covered mainly the rural areas and the peripheral urban areas. Since 1985, direct medicine aid from international NGOs has gradually declined. By 1996, three NGOs were still importing or receiving medicines, but in minor quantities only. The value of these medicines does not exceed US\$ 30,000 annually. In 1988, a new actor appeared on the market, Essential Medical Inputs (IME), created on an initiative of the Dutch organization SIMAVI, and financially supported by the Dutch organization ICCO. IME created a Revolving Fund for essential drugs and by 1996, disposed of stock valued at US\$ 900,000. Its market is composed of NGOs and ecclesiastical organizations;
- the public sector. The public sector, with a mandate to service the entire national territory through its health facilities (hospitals, health centres and health posts), bought medicines from national laboratories or imported medicines sporadically, according to the availability of budget resources. The public sector relied largely on special programmes subsidized by external donors (e.g. UNICEF for vaccination campaigns). In early 1996, the public sector received medicines from the government of China, UNICEF and the WHO/PAHO Essential Drugs project. With the Essential Drugs project, the public sector has reinforced its position and credibility. Mainly, it has stimulated expansion of the market, both with products not imported before, and in terms of geographical areas hardly covered in the past. The distribution of medicines is limited to the public health establishments, but these cater to approximately 80% of the population.

In 1995, the country's market for pharmaceutical products represented nearly US\$ 50–60 million, plus some US\$ 20 million in smuggled products. Medicines valued at US\$ 25 million are produced by national laboratories.

In Bolivia, the supply of essential drugs by the commercial market is still limited, but expanding (in 1995, some 15 imported products). An increasing number of rural pharmacies have started to sell essential drugs from the IME. Since 1990 medical posts in rural areas have started distributing medicines produced by local laboratories.

### **4.2.3 The relevance of medicine aid**

#### *Relevance for the health sector*

Donations have been relevant to Bolivian development policy in general and to the health sector in particular, for the following reasons:

- the health sector has been a priority sector for all democratic governments. This is expressed, for example by the elaboration of sector policies and investments through the social funds;
- the first supply contributed to the continuation of public health care during the economic crisis;
- the second donation supply supported the Ministry of Health in the implementation of four priority programmes;
- the second supply emphasized the concept of ‘essential drugs’, which led to the formulation of a drugs supply policy;
- the third supply, in addition to the WHO/PAHO project, contributed to the redefinition of Bolivian policy on medicines, culminating in the (draft) Medicines Act and other normative instruments, such as redefinition of the National Therapeutic Form and the National List of Essential Drugs;
- it contributed to the definition of a policy of cost recovery in the form of a Revolving Fund under the National Programme of Essential Drugs (PNMEBOL);
- essential drugs have contributed to the provision of services at lower prices, and to the implementation of a system of cost recovery. In that respect, medicine aid has been relevant to the overall policies of stabilization and structural adjustment.

#### *Relevance for the Dutch development cooperation policy*

Regarding the general development policies of DGIS, the relevance of medicine aid lies in the fact that it benefited low-income groups of the population in rural and peripheral urban areas. Medicines from the first supply were destined for the ‘popular pharmacies’ of that time. The public health care system contained special programmes for vulnerable groups strengthened by these donations.

### **4.2.4 Effectiveness of medicine aid**

#### *Macroeconomic effects*

The macroeconomic effects of medicine aid have been minimal. The amounts involved were so small that possible effects on the trade balance are only hypothetical. Since the donations replaced regular imports and smuggled medicines, it has been estimated that

the savings in foreign exchange would have been equal to the value of the medicine donation.

### *Countervalue funds*

Initially, countervalue funds were to be deposited in a savings account in local currency at the Central Bank of Bolivia with the purpose of “financing development projects, to be identified by the embassy in Lima” (Aguilar et al. 1996:28).

The first medicine aid generated countervalue funds amounting to only 0.9% of the cost price (MSPPS, 1984). The second programme did not generate any countervalue funds, since all drugs were used in health programmes free of charge. The Letter of Implementation of the third medicine supply (1991) stated that the countervalue funds (estimated to be US\$ 2,300,000) should be used to create a Revolving Fund (US\$ 1,000,000) for medicines, while the remainder should be used to strengthen the infrastructure of the Ministry of Health and to support domestic pharmaceutical industries. The countervalue funds generated amounted to US\$ 1,163,600, while the value of medicines in stock amounted to US\$ 1,069,700. The third medicine aid has generated countervalue funds up to 98.5% of the disbursed amount (CEASS Administration 1996).

All countervalue funds were deposited on an account in the Central Bank of Bolivia. Up to early 1996, these funds had not been used.

### *Microeconomic effects*

Microeconomic effects have been assessed at the markets for medicines in Bolivia and in the national pharmaceutical industry.

The total medicine market in Bolivia has an annual turnover of US\$ 50–60 million. The IME (US\$ 1 million) and CEASS (US\$ 2 million) together supply only 5% of the market. With their specialization on either essential drugs (IME) or on low cost medicines for the public sector (CEASS), both occupy a ‘niche’ in the market. By doing so, they have extended the total market for medicines and neither replaced commercial suppliers nor competed with them. Traditionally, the commercial suppliers serviced the urban areas and rural centres, aiming at clients with a certain purchasing power. The CEASS and IME service rural and urban peripheral zones, where the population usually has little purchasing capacity. The IME does not compete with CEASS because the latter provides medicines exclusively to the public health care system, while IME basically supplies NGOs. IME and CEASS therefore complement each other and both complement the commercial suppliers on the market. With a few exceptions, the pharmacies never opposed medicine aid, since their markets were not threatened.



The effects on the national pharmaceutical industry have been minor. There are 22 laboratories, six of them of substantial size, but only one produces more than 500 products. The three largest laboratories account for 80% of the national supply. Almost every national laboratory works below its installed capacity. There are no pharmaco-chemical industries in the country, so basic chemicals and raw materials have to be imported. Therefore, in terms of foreign exchange, the difference between medicine imports and the purchase of national products is restricted to the 'value added' of the national products.

IME has never purchased medicines from the national laboratories. The situation of CEASS is different: the countervalue funds have not yet been spent (in 1996 the revolving fund was not yet in operation). Once operative, CEASS could procure national products, but, given that laboratories import their basic pharmacochemicals and produce on a small scale, Bolivian products are not necessarily cheaper than imported ones.

#### ***4.2.5 Efficiency of medicine aid***

In general, medicine aid has been efficient, particularly the second and third donation, when essential drugs were supplied. These medicines are affordable, effective, reliable and of proven quality.

*Procedures and management capacity*

The first medicine supply was appraised on the basis of internal consultations at DGIS only. The second donation took account of the recommendations of external experts. When the medicines arrived at the airport in Bolivia, customs initially refused an import tax waiver. Subsequent deliveries met with all kind of problems, such as the loss of documents, technical problems with planes, storage problems, etc. The third supply was implemented by PAHO, according to their international bidding guidelines.

Distribution of the first supply in Bolivia was slow due to a lack of adequate distribution and communication systems. The second donation was implemented rapidly, because the medicines already had a predefined destination in the special health programmes. The third supply was embedded within the context of a project aimed at improving the medical supplies system. Distribution took place together with improved administrative procedures, a cost recovery system and supervision by PAHO. In general, the distribution of medicine aid has been efficient.

***4.2.6 Sustainability in the supply and distribution of medicines***

The sustainability of medicine distribution by the public sector depends on the capacity to maintain and expand the PNMEBOL Revolving Fund. Up to early 1996, the stock of medicines was based on external supplies only. Since then most donated supplies have been sold to the public, implying a capitalization of CEASS. Nevertheless, without continuing external donations, the revolving fund would face difficulties in maintaining its value, because part of the drugs continued to be delivered free of charge to patients. This was insufficiently compensated by the proceeds from the medicines sold. In addition, up to early 1996, the PAHO project financed the CEASS operational costs. Operational costs either have to be incorporated in the selling price of medicines, or assumed by the SNS. With adjustments to be made to cover the costs of medicines delivered free of charge, the Revolving Fund could operate independently of external assistance. Although the system is not yet self-supporting in full, the sustainability of the medicines supplies is relatively high.

Neither SNS nor WHO/PAHO have addressed the more fundamental sustainability issue regarding the desirability of maintaining a public sector medicine supply and distribution centre, or, alternatively the transfer of these functions to a private or 'third sector' institution.



### 4.3 Fertilizer aid

#### 4.3.1 Background

In Bolivia, a declining share of the Economically Active Population (EAP) depends on agriculture and forestry (in 1950 68% and in 1992 40.3%). This share varies according to agro-ecological zone: 66.1% in the northern *Altiplano* (highlands); 51.1% in the central *Altiplano*; 56.3% in the southern *Altiplano*, to 45% in the *Valles* (valleys) and 18% in the *Llanos* (plains) of Santa Cruz.

The introduction of fertilizers in Bolivia was late and slow. Before the Agrarian Reform of 1952, virtually no mineral fertilizer was applied. Both commercial farmers and smallholder producers used traditional techniques. Commercial producers in the eastern provinces exploited the natural fertility of the soils, by moving eastward—using a type of shifting cultivation—if yields started to decline. The majority of the agricultural producers, the *campesinos* mostly cultivating in the *Altiplano* and *Valles*, maintained soil fertility by the use of ashes and organic manure, crop rotation and cultivation in association with leguminous plants. In the early sixties, fallow periods started to become shorter due to increasing population pressure and the subdivision of land. The introduction of mineral fertilizer in Bolivia took place around 1965, through the agricultural extension programmes, the Agricultural Marketing Service (SAI) and development projects (FAO 1992). Smallholder producers started to use mineral fertilizers in highland potato growing, and to a lesser extent on rice, maize and vegetable cultivation. Since 1990, there is an increasing trend to the use of fertilizers on commercial crops such as soybean, sugar cane and bananas.

In 1996, the use of mineral fertilizers was still not very widespread and the average application rate was low at 4 kg of NPK/ha of cultivated land. Various factors prevent an increase in use, such as the low purchasing power of the majority of agricultural producers, the high (climatic) risk of agricultural production, the limited access to fertilizers and the long haulage distances between markets and production areas due to insufficiently developed distribution and marketing systems, a lack of technical assistance and an absence of credit facilities.

Although Bolivia has most raw materials to produce different types of fertilizers at its disposal, the country lacks local manufacturing or mixing facilities and depends on imports. Local resources have not been exploited due to high investment costs, a small internal market and fierce competition on the potential export market. Between 1983 and 1996, the main source of supply has been donations, mainly from the Netherlands and Japan.

### 4.3.2 *The Dutch fertilizer aid policy*

In 1982, the balance of payment support programme was considered to be an adequate instrument to support the new democratic government of Bolivia, in particular in view of the absence of a bilateral development cooperation programme. When the resources were committed and offered to the Bolivian government, no request for fertilizers was initially received. The suggestion was made by the Netherlands embassy. In those years (1981–83), the Netherlands was the most important fertilizer donor and accounted for 40% of all fertilizer aid provided worldwide. This was, at the same time, a support to the ailing Dutch fertilizer industry, since 30–40% of all Urea produced was procured for the Dutch development cooperation (Ministry of Foreign Affairs 1985:4, 14).

The evolution in the formulation of policies on fertilizer aid is reflected in policy papers and sectoral documents.<sup>1</sup> Two sectoral memoranda are of importance in this context: *Kunstmesthulp* (Fertilizer Aid) (1985) and *Sustainable Land Use* (1992).

The Fertilizer Aid document considered fertilizer aid as a form of programme aid and since most of the fertilizer supplied was used by smallholders, it was considered that the aid contributed to poverty relief, and therefore complied with the twin-track policy of alleviating poverty and promoting economic self-reliance. It was also considered to be an essential input in the process of increasing food production and necessary—as aid—as long as the recipient countries had not yet achieved self-sufficiency in satisfying their fertilizer needs by either production or through commercial imports. Fertilizer aid would compensate shortfalls, the principal victims of which were supposedly mainly small farmers, since shortages would cause higher prices and exclude them from using these inputs.

The document “Sustainable Land Use” (1993) stated that a major part of the Netherlands aid programme was geared to the development of agricultural systems in which external inputs such as fertilizers and pesticides play an important part. Sustainable land use was described as the optimal exploitation of environmental capacity from the viewpoint of agricultural production and resource conservation, directed to the policy recommendation of a balanced combination of sustainable farming systems with high and low levels of external inputs depending on the specific ecological context.

For Bolivia, DGIS formulated three objectives for the fertilizer aid during the 1982–93 period:

- to reduce the deficit on the balance of payments;

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<sup>1</sup> For an overview of the policy documents see: IOV 1995:65–79.

- to contribute to food security at a national level;
- to increase productivity and rural income, as well as food security at farm level.

The decisions to start and terminate fertilizer aid were both taken by the Netherlands. The reason to stop fertilizer aid stems from:

- the decision in 1991 to focus the balance of payments support programme on debt relief activities;
- the expanding portfolio of project aid, and
- concerns about the possible environmental hazards of fertilizer application.

It should be stressed that the fertilizer aid started in a period when no policies on it had been specified. The policies on programme aid, fertilizer aid and for the Andes Region were elaborated afterwards.

### 4.3.3 Soil fertility and the use of organic and inorganic fertilizers

Soil fertility depends on its chemical and structural properties, such as acidity, organic content, its characteristics as a rooting medium and its ability to retain nutrients and water (i.e. both on nutrient content and texture). Soil fertility is highly dynamic due to a continuing process of soil formation and degradation. This is caused by natural conditions (gravity, precipitation), as well as the addition and extracting of nutrients by man, animals and plants (see box 4). In Bolivia, the variety of soils is enormous and can be classified in forty-nine different land systems (Ministry of Agriculture 1973). Of the 7.8 million hectares of arable land (7.1% of the country's surface area), about

#### **Box 4. Nutrient extraction and restitution**

One hectare of potato crop that produces 10 mt of tubers and where the plant is ploughed back into the soil extracts approximately 31 kg of nitrogen (N), 16 kg of phosphorus ( $P_2O_5$ ) and 60 kg of potash ( $K_2O$ ) from the soil. Using mineral fertilizer, a combination of Urea (46-0-0), Di-ammonium phosphate (18-46-0) and Potash sulphate (0-0-60) would require 211 kg of input. If these elements had to be replaced with organic manure, approximately 4,500 kg of cow dung or 4,200 kg of chicken manure would be required.

Source: FAO 1995a:36.

1.6 million hectares is actually under cultivation (1.4% of the total area), while 2.8 million hectares are left fallow (2.6%) and 3.5 million hectares (3.1%) are not used for agriculture. Ninety-two percent of this unused land is found in the *Llanos* (FAO 1995a:16). Approximately 68% of the agricultural holdings cultivate less than 5 hectares and cover only 1.5% of the total cultivated area. In extensive zones of both the *Altiplano* and *Valles* population pressure has caused parcelation of the cultivated area, known as

*minifundismo*. Of all cultivated area 18% is on the *Altiplano*, 37% in the *Valles* and 45% in the *Llanos*.

On the *Altiplano*, the soil is stony, with a poor texture and a low nutrient content. Usually 25–50% of the soil is left fallow for three to six years; it is then cultivated, usually with one crop of potatoes, followed by two or three other crops in rotation. Traditionally fertilization took place only for potato cultivation, with a mixture of ashes and organic manure. Due to shortages in organic manure, more mineral fertilizers were gradually used. Extremely small plots (less than 0.3 hectares) are no longer suitable for traditional fallow periods and force *campesinos* to ‘over-exploit’ the soil. In the *Valles*, most agricultural production takes place on a variety of soil. Different crops are cultivated, like potatoes, maize, wheat, vegetables and fruits. Both organic and mineral fertilizers are used, in particular in irrigated areas and on terraces. In the flat lowland *Llanos* soil types are mostly sandy and with a low capacity to retain nutrients. Modern commercial production goes hand in hand with the obsolete and harmful *chaqueo* (slash and burn) technique. The *chaqueo* entails the gradual encroachment of cultivated areas into the tropical forest. Since 1990 producers have changed to a more sedimentary cultivation and have started to apply mineral fertilizers. This is due to ecological considerations but also because, in some areas, the limits have literally been reached.

The FAO classifies Bolivian soil fertility as low to very low, with serious deficiencies in organic material (on average less than 2%). With respect to the macro-nutrients (nitrogen (N), phosphorus (P), potash (K), sulphur (S), calcium (Ca) and magnesium (Mg)), most deficiencies were noted in nitrogen and phosphorus, with a considerable variation in calcium and magnesium content. Although crops like potato extract potash, most soils do not suffer from serious potash deficiencies (FAO 1995a).

**Box 5. Chemical composition of the main fertilizers used in Bolivia:**

Percentage of active component:

product	nitrogen (N)	phosphate (P <sub>2</sub> O <sub>5</sub> )	potash (K <sub>2</sub> O)	sulphur (S)
Urea	46			
Calcium Ammonium Nitrate (CAN)	27			
Triple Super Phosphate		46		
Ammonium Sulphate	21			26
Nitrogen Phosphate (NP or NPK)	23	23		
Di-Ammonium Phosphate (DAP)	18	46		
NPK Compounds	15 (17)	15 (17)	15 (17)	

Source: FAO 1995a.

Most mineral fertilizers are used on potatoes (70%), vegetables, maize and wheat (15%) and fruit trees (10%). Comparing the current cultivation pattern with the use of both organic and mineral fertilizers shows a shortfall in inputs, leading to a decreasing nutrient content of the soil. Table 4.3 shows this deficit.

**Table 4.3 Estimated shortfall in nutrient supply to compensate for nutrient extraction**

Crop	Potato	Maize and wheat	Sugarcane	Vegetables
cultivated area 1992 (has)	111,000	332,000	60,000	25,000
estimated nutrient input (mt)	12,000	1,400	0	3,000
estimated nutrient requirement (mt)	31,200	57,700	25,000	8,700
deficit (mt)	19,200	56,300	25,000	5,700
used standard requirement in NPK/ha	70-100-0	40-40-0	90-60-60	60-60-60

Source: FAO Fertisuelos 1995.

Nutrients may be added to the soil both by natural processes (atmospheric deposition, sedimentation) and by agronomic practices, such as the biological fixation of nitrogen by legumes, fallow periods, crop rotation and fertilizer application. Ecologically sustainable production requires that nutrient losses be restricted or replenished in such a way that the nutrient balance is maintained as far as possible.

*The debate on sustainable agriculture in Bolivia*

Parallel to the international debate on sustainable agricultural development (see IOV 1995:ch. 2.3), the use of mineral fertilizers in Bolivia has also been under discussion.

The arguments used in Bolivia in favour of the use of mineral fertilizers include the following:

- the availability of organic material, in particular on the *Altiplano*, is declining and insufficient to satisfy the nutrient requirements for crop cultivation;
- Bolivia's national dependency on imported food can be overcome by increasing the production and productivity of food crops; an increase which can be obtained only by using mineral fertilizers;
- the use of mineral fertilizers shows positive gross margins on the principal food crops, and hence helps to increase the income levels of agricultural producers;
- the potential benefits which accrue from high yielding (seed) varieties can only be optimized in combination with the use of mineral fertilizer.

The arguments against the use of mineral fertilizer in Bolivia include:

- climatic conditions (low precipitation, night frost) are a permanent hazard and *campesinos* cannot afford the risk of losing purchased inputs;
- the principal restriction of most Bolivian soil is not the lack of nutrients, but the unsuitable texture, which makes it incapable of retaining humidity and provides insufficient aeration;
- imported mineral fertilizers are bulky products, with high transportation costs, so their (unbalanced) use in a landlocked country hampers internationally competitive agricultural production;
- mineral fertilizers might be harmful to the environment, and their indiscriminate use contributes to mineralization and general soil degradation;
- in order to optimize the use of modern inputs, they should be accompanied by an integrated policy on prices, extension practices, research and credit facilities. Such a policy does not exist in Bolivia;
- ecologically sound techniques such as low-external-input sustainable agriculture and integrated plant nutrition systems are alternatives which make better use of locally available resources and aim at sustainable development in the long term.

Based on intensive research and substantial experience, the FAO in Bolivia recommends an approach which combines agronomic with mechanical techniques to combat erosion, as well as the rational use of both organic and mineral fertilizers according to local conditions, climatic risks and crop potentials.

#### ***4.3.4 Organization, distribution, prices and market of fertilizers***

The use of mineral fertilizers is concentrated in a few crops and in specific geographical areas. The total use of mineral fertilizer did not exceed 20,000 mt in 1995. Since no mineral fertilizers are produced in Bolivia, the country depends on external sources for its supply of mineral fertilizer. These include formal imports, informal imports (the black market), and donations.

##### *Supply of mineral fertilizer*

###### (a) Formal imports

Although statistics on commercial fertilizer imports are remarkably scarce and prone to substantial error, table 4.4 presents the most probable volumes of commercial imports. Commercial imports showed a steady increase up to 1986 (orders were placed in 1985), and a dramatic drop afterwards, resulting from the exchange rate unification (which removed the implicit subsidy on imports) and the sudden discontinuation of credit facilities

**Table 4.4 Commercial fertilizer imports in mt in selected years**

Year/product	Urea	Ammonium nitrate	Super-phosphate	Compound NPK	Others	Total
1965						1,360.0
1970						3,601.0
1975						7,552.0
1982	1,117.0	3,683.9	386.6	51.6	2,663.9	7,930.3
1986	1,673.9	12,648.7	732.2	–	1,253.7	16,308.5
1987	1,136.0	2,378.3	229.2	688.6	1,839.8	6,271.9
1990	341.6	2,613.6	383.7	222.6	3,254.2	6,815.7
1993	925.3	3,069.8	25.1	344.8	2,322.9	6,687.9
1994	126.4	3,122.2	–	503.9	1,195.6	4,948.1

Source: Based on data FAO-UEF 1995b and Vaes 1994.

when the Agricultural Bank of Bolivia was closed. Between 1987 and 1993 commercial imports were between 6,000 and 7,000 mt. The drop in 1994 is explained by the withdrawal from the market of the Commercial Agricultural Services.

(b) Imports through the informal or parallel market

The informal market is complex, since it embraces both trade in ‘rotating’ aid fertilizers, and fertilizers brought into the country for a variety of other reasons (such as payment in kind for coca leaves or simply to avoid paying import levies). Until 1996, informal imports reportedly did not exceed 2,000 mt/year.

(c) Fertilizer donations

Japan was the first country to supply fertilizer aid to Bolivia, although only in minor quantities. The Netherlands started in 1983 supplying larger quantities. Germany and the United States made one-off contributions in 1985. The Netherlands completed its fertilizer aid programme in 1993, while Japan provided more than 20 shipments up to 1995. Table 4.5 presents fertilizer aid by donor.

Between 1983 and 1995, Bolivia received a total of 123,473 mt in donated fertilizer, of which 51% was supplied by the Netherlands. Average annual fertilizer aid totalled approximately 10,000 mt (for statistical details see Annexe 2). Dutch fertilizer aid totalled approximately 63,000 mt, spread over nine shipments, averaging some 6,000 mt annually. The types of fertilizer supplied were mainly Urea 46%, Di-Ammonium Phosphate (DAP) 18-46-0, and compounds like 23-23-0 and 17-17-17. Although these deliveries represented a substantial part of total fertilizer use in Bolivia, by international standards the donations were modest and amounted only 1.5% of all fertilizer aid provided worldwide by the Netherlands between 1975 and 1993.

**Table 4.5 Fertilizer aid by donor (in metric tonnes)**

Year/source	Netherlands	Japan	Germany	United States	Total
1983/84	10,000	2,570	0	0	12,570
1985/86	10,026	4,000	4,042	2,366	20,434
1987	4,000	4,500	0	0	8,500
1988	5,400	3,740	0	0	9,140
1989	6,500	1,899	0	0	8,399
1990	6,500	1,125	0	0	7,625
1991	8,500	1,700	0	0	10,200
1992	6,000	7,970	0	0	13,970
1993	6,000	5,084	0	0	11,084
1994	0	12,151	0	0	12,151
1995	0	9,400	0	0	9,400
Total	62,926	54,139	4,042	2,366	123,473

Source: Buitendijk 1995d and FAO-UEF 1995b.

When the Dutch fertilizer aid stopped in 1993 (sale of remaining stock continued afterwards), Japan increased its donations, maintaining the total volume of fertilizer supply. The Smallholder Development Fund (FDC), which is the beneficiary body of the Japanese donations, auctions these fertilizers in one single lot. The tender has been awarded to the same enterprise (International SRL) over a number of consecutive years. In 1995, the fertilizer market was characterized by a clear monopoly, with trading houses being supplied only by International SRL.

### *Prices*

In theory, with trade liberalization, fertilizer selling prices in Bolivia should have followed world market trends. Although international procurement prices are indicative for local selling prices, they never have been decisive. Dutch aid fertilizers were procured by the VIB from manufacturers in the Netherlands or in any of the ESCs at prices based at ex-factory world market prices. The cost of transportation of the fertilizer compared with their free-on-board (fob) price is very high and ranges between 88% and 166% of the fob price. The 1993 price differentials between fob and cost, insurance and freight (cif) prices are presented in table 4.6.

The various Letters of Implementation specify the condition imposed by the Netherlands that the local selling price should be the equivalent of 90% of the market price. However, in practice, there was no market price, because the volume imported by aid largely exceeded commercial imports and gradually replaced them. The Dutch fertilizer aid was so significant that it became the 'price-setter' for the market. The alternative method of



**Table 4.6 Price differentials fob and cif of selected fertilizer supplies (US\$/mt)**

Year	Fertilizer NPK	Country of origin	Price fob	cif port	cif La Paz
1993	DAP 18-46-0	Morocco	152.1	213.8	358.8
	Urea 46%	Netherlands	122.9	180.9	327.3
	17-17-17	Netherlands	215.0	273.0	419.5
	23-23-0	Netherlands	203.9	261.8	408.3

Source: Bialowas, Kouterik and Van der Windt 1994.

assessing the market price would have been to consider the import parity price, but this was never calculated.

Most fertilizer supplied by the Netherlands between 1983 and 1990 was sold at an implicitly subsidized price, varying from 3% (Urea) to 36% (23-23-0) in 1989–90. After 1990 implicit subsidies were minimal, while in some years (e.g. 1993) farmers paid well above the cost price.

Up to 1987 selling prices, expressed in American dollars, were determined by the Agricultural Bank of Bolivia (BAB) once a year. Since fertilizers were sold to farmers in local currency, customer prices had to be adjusted frequently, in particular during the period of hyperinflation. After the BAB was closed down, prices were set by the National Council of Fertilizers on the basis of negotiations with all interested actors. Since 1992, prices have been determined by the National Committee for Donations and the Office of External Financing and Monetization (DIFEM) with the aim of maximizing the generation of countervalue funds. In practice, the price might be a subsidized implicitly in one year, while in the next, it could incorporate an implicit tax. In general, selling prices have remained under the import parity price, with exception of the last fertilizer donations. They have always been the same for the whole of Bolivia (pan-territorial pricing), not reflecting differences in local transport and distribution costs. Table 4.7 shows the average selling prices by formula of donated fertilizer. In 1994 and 1995, after the completion of the Dutch fertilizer aid programme, selling prices showed a remarkable increase. A bag of Urea cost US\$ 28 in late 1995.

**Table 4.7 Selling prices of Dutch aid fertilizer to the agricultural producer (in US\$ per 50 kg. bag)**

Year/type	Urea	18-46-0	15-15-15	23-23-0	17-17-17
1985–88	14–15		16–18	16–18	
1989–90	15–16	18–19		14–15	16–17
1991	18–21	23–25		20–23	22–23
1992	18–20	24–26		20–22	22–24
1993	21–22	24–25		22–24	22–24

Source: Buitendijk 1995e.

*Organization and distribution of Dutch fertilizer aid*

The distribution of fertilizers among *campesino* producers has been the permanent concern of the Dutch authorities. This was reflected by the appointment firstly of advisors on an ad-hoc base and later, from 1987 onwards, of a permanent expert in La Paz. The expert was charged with the logistics of the total import support programme and of fertilizer aid in particular.

In the course of time, fertilizers were distributed through different channels, such as the BAB, the Ministry of Smallholder Affairs and Agriculture (MACA), NGOs, departmental chambers of agriculture, and *campesino* organizations. Between 1988 and 1992, these organizations coordinated their efforts in Departmental Committees. In 1992 the Committees were suspended and distribution was carried out through producer organizations and commercial enterprises, since part of the aid fertilizer was tendered. Table 4.8 presents an overview of the different Bolivian agencies that have been responsible for the management and distribution of fertilizers.

**Table 4.8 Agencies responsible for fertilizer distribution**

Year of supply	Government body responsible	Distribution through	Inter-institutional organization	Monitoring and technical advice	Government body administering countervalue funds
1983	BAB	CSUTCB		external advisor	BAB
1984	BAB	CORACA		2 external advisors	BAB
1986/7	BAB	CORACA, ONG's		external advisor	BAB
1988/9	MACA	National and Depart. orgs.	National Council of Fertilizers	MCTH	MACA
1990/1	Min. of Planning and Coordination	National and Depart. orgs.	National Council of Fertilizers	MCTH	Min. of Planning and Coord.
1992/3	Min. of Planning and Coordination, SNAG	National and private orgs.	MCTH	DIFEM	

Although there was no public agricultural marketing system before 1983, the Bolivian government assumed the responsibility for the direct distribution of the fertilizers to agricultural producers. This was consistent with concepts on the role of the public sector at that time. Temporary institutions, such as the National Council of Fertilizer were

created, together with their corresponding Departmental Councils. During the first years of fertilizer aid various NGOs participated, but some of them stopped distributing fertilizers at a later stage, due to discontentment with the distribution mechanisms, or because they felt that their institutional policies were no longer consistent with the distribution of mineral fertilizers.

Most public institutions involved in fertilizer aid have also discontinued their operations, because their functions have changed, been discontinued or have been transferred to other bodies (BAB, MACA and Ministry of Planning and Coordination). Due to the discontinuation of government organized distribution and in view of the small scale distribution networks of farmers' organizations and NGOs, the bulk of the fertilizer is currently distributed by the private commercial sector. Rural markets, shopkeepers and wholesalers' rural distribution outlets comprise the present distribution network.

Until 1992 aid fertilizer was exclusively distributed to smallholder farmers, mainly on the *Altiplano*, in six out of the nine departments. Since then aid fertilizer (mainly Japanese) has been retailed nationwide on the market.

#### ***4.3.5 The relevance of fertilizer aid***

##### *Relevance to Bolivian development policy*

From the Bolivian point of view fertilizer aid has never been a macroeconomic instrument, but is seen as a form of support to the agricultural sector. The relevance of fertilizer aid to Bolivian development policy has been assessed at two levels:

- the relevance of the agricultural sector within overall development policies;
- the relevance of fertilizer aid in supporting and strengthening policy in the agricultural sector.

Every government since 1985 has drafted a National Development Plan or Strategy, but none of them gave priority to the agricultural sector. Apart from the potential of commercial agricultural production as an export earner, no specific role was assigned to the agricultural sector within the framework of structural adjustment.

The various policy documents mentioned have the following aspects in common:

- agricultural sector policies are not formulated as an integral part of macroeconomic policies;
- all plans only treat the issue of agricultural inputs superficially and do not contemplate specific input policies;

- no specific strategy or policy framework is put forward to match technological innovation and the use of inputs with research, extension, credit facilities and technical assistance;
- most plans and intentions regarding the agricultural sector have not, or only partially, been implemented.

Fertilizer aid was a Dutch initiative from the beginning. During the various bilateral consultations on development cooperation between Bolivia and the Netherlands, the importance of the agricultural sector, in particular that of the smallholder subsector, was stressed by the Netherlands and not by the Bolivian delegates.

In conclusion, the agricultural sector has never figured among the priority sectors for economic development in Bolivia. Similarly, the incorporation of fertilizers into smallholder agricultural production system did not form part of the government policy, although fertilizer aid was part of the rehabilitation strategy after the drought period (1984–87). The most recent policy (Gobierno de Bolivia 1996) does not stress the use of mineral fertilizers; on the contrary, it emphasizes the virtues of ancestral techniques and ecologically sustainable agriculture.

During the evaluation, the Bolivian authorities raised the question whether fertilizer aid could have been more relevant to the general objectives of the structural adjustment programme. The potential role of fertilizer aid within the framework of structural adjustment is described in an OECD Technical Paper (Fontaine and Sindzingre 1991). According to their view, stabilization measures usually imply the reduction of public expenditure, including the elimination of all types of subsidies or incentives. Simultaneously, economic adjustment in the productive sectors requires the provision of and incentives to key productive sectors, for example the agricultural sector. The main government instruments for doing so are legislation, fiscal instruments and financial incentives. Without violating austerity measures in the field of public expenditure, donated imports, such as fertilizer, could be used as a temporary instrument to provide incentives to priority sectors, since the incentives are being paid by donors. Another use, mentioned in the report, is that of ‘cushioning’ policy measures, implying full cost recovery for previously subsidized public services. Among all possible interventions (e.g. subsidizing credit, marketing, produce price controls), the subsidy of agricultural inputs, particularly fertilizers, has proven to be the most efficient in achieving increased agricultural production (Fontaine and Sindzingre 1991:50). In practice, although the Bolivian government has never defined specific policies for the agricultural sector within a broader context of structural adjustment, the implicit price subsidy of 3–36% was an externally financed incentive.

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*Relevance to the Dutch development cooperation policy*

To the Dutch development cooperation fertilizer aid was in first instance a macroeconomic instrument aimed at increasing economic self-reliance of the recipient country. However, in practice, the other main goal of Dutch aid policy—the alleviation of poverty—also played an important role.

In 1982/83, at the start of the fertilizer aid programme to Bolivia, the most important priority of the Dutch authorities was not macroeconomic, but to support democracy. The relevance of fertilizer aid in strengthening the democratic process at national level cannot be ascertained, but the distribution system of fertilizers through the Fertilizer Committees at departmental level integrated a substantial number of departmental actors from both the public sector and the non-governmental sector. This coordination platform facilitated and stimulated other public interventions. It has been argued or speculated that these successful platforms have contributed to the current process of decentralization and local government.

From 1986 on the continuation of fertilizer aid was always justified by the fact that the country had embarked on a difficult structural adjustment process, and that fertilizer aid helped to save foreign exchange by replacing commercial imports of fertilizers, and of food commodities through increased local production. In practice, however, the main perspective was micro-level relevance to poverty alleviation. This is reflected in both the correspondence in DGIS files, and the activities of the expert charged with fertilizer aid in La Paz (1987–95).

Fertilizer aid is not a direct instrument for the enhancement of the position of rural women, nor has it been relevant to the improvement or protection of the environment. The potential positive effect of avoiding further land degradation could not be ascertained in practice. However, potential environmental benefits are clear in the *Llanos* (fertilizer use helps to stop further *chaqueo*).

In relation to the specific Dutch development cooperation policy on Bolivia, as outlined in the “Policy Plans for the Andes Region” (DGIS 1990 and 1992), fertilizer aid was relevant, since it supported the priority (agricultural) sector of the Dutch bilateral development programme.

#### **4.3.6 Effectiveness of fertilizer aid**

##### *Macroeconomic effects of fertilizer aid*

Quantitative measurement of the macroeconomic effects of relatively small interventions is practically impossible. In order to assess the macroeconomic effects of fertilizer aid, it should be clarified in the first instance whether the aid has been ‘fungible’ or ‘additional’. If fertilizer donations replaced imports that would have taken place anyway, they freed financial means at the macro-level to be used for other—usually unknown—purposes. If, on the contrary, the fertilizer aid was additional to imports that would have been effected anyway, the effects could—theoretically—be traced in the sector. In that case there would have been no relief on the trade balance.

In Bolivia, it is most likely that fertilizer aid has contributed to dissemination of the use of fertilizers, mainly by smallholder producers. When the Dutch fertilizer supplies arrived in Bolivia in 1983, the volume of fertilizers used annually did not exceed 6,000 mt. By 1995 this had risen to between 15,000 and 20,000 mt. During the first year the volume of Dutch fertilizer aid (10,000 mt) exceeded the total national requirement. At that time, fertilizer aid was both replacing almost all imports and additional. It is most unlikely that imports of the same magnitude would have been effected by either the public or private sector. After 1985 the private sector faced difficulties in obtaining credit for large scale imports, while its inadequate distribution systems hampered.

Over time, fertilizer use gradually increased and the retail distribution system improved: when the Dutch fertilizer aid was discontinued in 1993, the Japanese government increased its fertilizer aid to comparable volumes. This is an indication of substitution.

In conclusion, fertilizer aid has both replaced imports and been additional at the same time. The substitution effect can be observed in relation to commercial imports, which were approximately 2,000—3,000 mt annually. It may be assumed that fertilizer aid has had only a minor positive effect on the trade balance, because only a part of it replaced imports that would have taken place anyway. Since the Dutch donations substantially exceeded imports, it has been assessed that fertilizer aid should be considered as predominantly (approximately 60%) additional.

Two types of potential effects of fertilizer aid on the trade balance have been analysed:

- the direct contribution to the trade balance, i.e. freeing foreign exchange for other purposes;
- the indirect contribution to the trade balance, i.e. the reduction of food imports as a result of increased agricultural production.

(a) Direct effects on the trade balance

In financial terms, the Dutch contribution to the balance of payments represented on average 5% of the total annual aid that Bolivia received from all sources for the same purpose. Due to the declining trend in international funds allocated to balance of payments support, the Netherlands share increased to 14% in 1993 (PNUD, 1989–1995). Direct savings in foreign exchange have been in the magnitude of 60% of the value of the supplies, approximately US\$ 14.5 million. The direct effect of Dutch aid on the trade balance has been minimal, as shown in table 4.9:

**Table 4.9 Trade balance and Dutch fertilizer aid (in US\$ millions)**

Year	1985	1988	1990	1992	1993	1994
export (fob)	628.3	542.4	830.7	643.1	709.9	970.0
import (c&f)	-690.8	-767.7	-962.7	-1,090.2	-1,205.8	-1,279.0
trade balance	-62.5	-225.3	-132.0	-447.1	-495.9	-309.0
fertilizer aid	2.8	0.7	3.3	2.4	2.4	0
fertilizer aid as % of imports	0.4	0.1	0.3	0.2	0.2	0.0

Source: Based on BCB and DGIS data.

Fertilizer aid represented between 0.1% and 0.4% of total imports into the country. Since only part of this aid has replaced imports that would have taken place anyway, the effect on the trade balance has been marginal.

(b) Indirect effects on the trade balance

The second potential contribution of fertilizer aid to the trade balance is indirect. Fertilizer aid could have contributed to increased national food production, and consequently, to a decrease in food imports. Less foreign exchange would then have been used for food imports. Bolivia has a long history as a food importing country and has been receiving food aid since the nineteen-fifties (Prudencio 1993:10,11,70). About 90% of all food aid consisted of wheat and wheat products. The food aid received from the United States (programme PL 480) has been the most important programme for over forty years. Between 1955 and 1990 2,268,823 mt of food aid worth approximately US\$ 443.9 million was received by Bolivia. On average Bolivia received US\$ 12.5 million per year in food aid. Since the relative importance of food aid as compared to commercial imports remained largely unaltered during the 1985–90 period, no conclusions can be drawn about the indirect contribution of fertilizer aid to any reduction in food imports.

Two aspects hamper the interpretation of agricultural production statistics:

- During the 1983–87 period, the country suffered an extended period of drought. The impact of climate on national food production was much more significant than the availability of fertilizer.

- About 70% of all fertilizer is used for potato growing. Potatoes are—to a large extent—a non tradeable commodity in Latin America (due to high transportation costs), which means that no potatoes are imported for consumption in the case of shortfalls. Potato and wheat consumption are only marginally interchangeable (different consumer groups, different consumption habits). Therefore, if fertilizer aid did have any effect on national food production, about 70% of this effect would not be reflected by changes in food imports.

In conclusion, the effects of fertilizer aid on the trade balance, both directly and indirectly have been only marginal or cannot be detected. In addition to the effects on the trade balance, the countervalue funds may have contributed to relieving deficits on the public expenditure budget.

#### *Generation and use of countervalue funds*

In Bolivia, the generation of countervalue funds has been subject to auditing, but their use has not. In practice, during the 1983–92 period, the use of countervalue funds was managed in a kind of parallel circuit, outside the public budget, and funds were deposited on special accounts to be drawn upon only by the administrating public institution (BAB, MACA). Since these funds were used for additional activities not included in the public budget, they did not relieve the public budget. During the 1983–95 period the sales of fertilizer generated approximately US\$ 16.7 million (approximately 70% of c&f value) (see chapter 4.5).

In conclusion, the effects of fertilizer aid on the trade balance have been only marginal, while the countervalue funds relieved the public budget hardly or not at all.

#### *Other macro-level effects*

Fertilizer aid may have had other macro-level effects, such as on the policies on the agricultural sector and/or the institutions involved.

##### (a) Effects on Bolivian agricultural policy

Bolivia's macroeconomic policies have never prioritized the agricultural sector. Private and public investment in the sector have been small. The Netherlands representation in Bolivia (MCTH) made several attempts to encourage the formulation of policies and the setting of standards regarding chemical agricultural inputs in general and fertilizer in particular. As a result of these efforts, a Fertilizer Unit was created within the MACA, and a National Coordination Office for Donations was set up. In addition, fertilizer aid was the origin of a special fertilizer project by the FAO and contributed to the formulation



of projects aimed at alternative forms of fertilization, such as the use of *Rhizobium* and *Bradyrhizobium* inoculants. However, up to 1995, these efforts did not result in clear policies and guidelines regarding the handling, distribution and use of fertilizers and other agrochemicals, nor was a public policy framework developed on technological innovation, linking the use of mineral and chemical inputs to research, extension, credit facilities and technical assistance (the so-called development mix).

(b) Effects on institutional capacity

According to the Letters of Implementation, after 1985 fertilizer aid also aimed at strengthening the agricultural sector, although in practice this narrowed down to strengthening of the public agricultural institutions. Most countervalue funds had to be used for the institutional strengthening of, for example, the BAB, MACA, SNAG, extension services provided by the Bolivian Institute for Agricultural Technology (IBTA) and the Centre of Agricultural Research in the Tropics (CIAT) and projects like the FAO Fertilizers project (later Fertisuelos).

**Box 6. The fertilizer market in La Paz**

In the Department of La Paz, the main suppliers are the agrochemical companies. In 1995, these stores were supplied with fertilizers from two sources: a) from the company International SRL (none of the stores has sufficient capital to import directly, so they act as subsidiaries of International SRL) and, b) from illegal imports brought into the country across the Desaguadero border.

A significant amount of Peruvian DAP fertilizer has been sold on the market, competing with the Japanese aid fertilizer. In addition, the stores still trade in important quantities of Dutch fertilizers (50 to 100 mt Urea and DAP in three trade houses visited). Small volumes of other fertilizers, for example, 15-15-15, from Argentina were also available.

At the end of 1993, the *Servicio Agrícola Comercial* (Commercial Agricultural Services), the sole company with sufficient capital to compete with aid fertilizer, discontinued its imports. *Servicio Agrícola Comercial* felt that it was being pushed out of the market by FDC's tendering procedures, which favoured International SRL. In 1996, International SRL started to import commercially.

Source: Aguilar et al. 1996.

The optimal use of agricultural inputs requires supporting services, such as research, extension, credit and other services. Although most of these supporting services existed when fertilizer aid started, they disappeared or were reduced drastically in the context of the economic stabilization process. The BAB was closed down, most research stations

were abandoned and the extension services were dramatically reduced as a result of organizational changes in the IBTA.

Many departmental and local labour union and producer associations were involved in the distribution process. The private and labour union institutions were most likely more successful than governmental agencies in fulfilling their distribution tasks (Aguilar et.al 1996). Most departmental and local producer organizations gained experience, developed management skills and learned to coordinate activities.

Fertilizer aid did make some contribution to the strengthening of the institutional capacity of the public sector, but the effects of this were not lasting due to institutional changes in organization, or were only temporary. Until 1992, management of the countervalue funds by administrative public institutions was not transparent and decision-making was ad-hoc.

#### *Micro-level effects of fertilizer aid*

Apart from its macro-level effects fertilizer aid also has micro-level effects. Obviously, the effects of fertilizer aid on micro-level production cannot be distinguished from those of fertilizer use in general. The following micro-level effects of fertilizer aid have been analysed:

- the effects on the national fertilizer market;
- the effects on the relief of poverty;
- the effects on cropping patterns;
- the effects on rural women; and
- the environmental effects.

#### (a) Effects on the national fertilizer market

Import support interferes with existing markets within the recipient country. Before the start of the fertilizer donations commercial import companies were the main agents of fertilizer supplies on the Bolivian market. Most companies were established during the cotton ‘boom’ in the 1970s when there was an increase in demand for agrochemical products. They were usually branches of international companies or agents of the international manufacturing industry. No marketing and distribution systems were developed outside the major cities. Smaller towns and rural markets were supplied by the informal sector. Between 1985 and 1995 almost all international fertilizer firms closed their offices in Bolivia, while commercial importers went out of business or restricted their imports to insecticides and pesticides. In 1995, only one company directly imported mineral fertilizers.

The fertilizer aid from the Netherlands and Japan meant that the state interfered in the market. Before the donations, the state never had distribution or storage facility to commercialize these inputs. However, it did have the power to set prices and to provide credit to smallholders. Until 1992, the public bodies entrusted with fertilizer distribution deliberately avoided any formal relationship with commercial traders. On the contrary, they claimed to present an alternative to 'exploitation' of the smallholder producers by these traders. Only part of the last supply of aid fertilizers (1993) was traded by the private sector.

Since demand was largely unknown, more fertilizers were initially donated than could be distributed on a cash basis, consequently a substantial part was distributed on credit or held in storage. Various reports (Buitendijk, 1990–95) mentioned that fertilizer aid was effective in regulating prices to the extent that they became more accessible to the smallholder farmer. This argument erroneously assumes that the prices of commercially imported fertilizers made them inaccessible to smallholder producers, but most fertilizers have always been purchased by smallholder producers. Up to 1992, fertilizer prices were usually set below the financial import parity price (although never calculated in that way). These negotiated prices at least 'democratized' demand: without the impetus of fertilizer aid, demand would not have reached its current level.

The distribution system developed by the Departmental Fertilizer Councils and successive distribution at local level paved the way for the development of fertilizer distribution through rural markets (*ferias*), which definitely improved the access of smallholder producers to fertilizer.

When the Dutch fertilizer aid was discontinued in 1993, the Japanese aid increased in volume. Since this fertilizer is sold by tender a new market situation developed, with only one company trading almost all fertilizer in the country. In 1995, the fertilizer market was distorted, speculative, monopolistic and aggressive. The continuous flow of aid fertilizer, in combination with fiscal barriers on imports has resulted in an atrophy of the fertilizer market in Bolivia.

In conclusion, continuous fertilizer aid resulted in both erosion of the commercial market, and simultaneously, democratization of the use of fertilizer, which enabled the emergence of a rural marketing system, providing better access to the *campesino* producer.

#### (b) Fertilizer aid and poverty alleviation

From the first donation on, fertilizer aid to Bolivia was intended to benefit the *campesinos*. Increased agricultural productivity and production would lead to higher incomes. Because of the variety of agro-economic zones, crops and types of farmer, the contribution to

poverty alleviation has not been the same for all agricultural producers. In general, three categories of smallholder producers can be distinguished:

- smallholder producers, who produce for household consumption and for the market;
- smallholder producers who produce mainly for household consumption and sell any small surpluses on the market;
- smallholder producers who, on average, produce insufficient food to satisfy their household needs and require a supplementary income.

The approach to fertilizer use is different per category of producer.

Specific studies were conducted in the Cochabamba and Potosí departments.

In *Cochabamba*, producers apply fertilizers only to potato and some wheat seed. The average use of fertilizers is far below the recommended quantities and results in a 25–30% increase in yield of wheat and wheat seed or 30–35% in potato production.

Smallholder producers who produce for the market separate plots ‘for the market’ from plots ‘for family consumption’. On the plots for the market purchased inputs like seed, mineral fertilizer and agrochemical are used. Similar to smallholders who produce mainly for household consumption, on the plots for their own consumption, they use retained seed and organic manure, sometimes mixed with ash and some mineral fertilizers. Producers who depend on an off-farm income because they cannot satisfy their household needs through their own production, invest little in agricultural activities and apply only small quantities of ash and organic manure from their own animals.

In *Potosí* individual plots are smaller and precipitation is usually lower (less than 400 mm/year) than in Cochabamba. Mineral fertilizers are almost exclusively used for potato production (in particular seed potato). Only 25% of agricultural producers use mineral fertilizers. Of these users, approximately 10% applies fertilizer according to the technical recommendations. In the past, most smallholders used only organic fertilizers, such as sheep and cow manure. When the natural resources of firewood virtually disappeared, the use of manure as combustible fuel became more common, so less organic material could be used to maintain soil fertility. During the sixties and seventies government schemes and international development projects boosted the modernization of agriculture, including mechanization and the application of mineral fertilizers and agrochemicals. After initial success, the soil started to deteriorate (eolic erosion as a result of mechanization, and mineralization due to high fertilizer application rates under irregular precipitation circumstances). The deterioration was initially ‘compensated’ by increasing the quantity of mineral fertilizer per hectare, as was the case, for example, in the *Pampas de Lequezana*. As a consequence of these schemes and projects, many smallholder producers in Potosí were already familiar with the use of fertilizer when the Dutch fertilizer aid first arrived.

Smallholder producers with predominantly a market orientation purchase mineral fertilizer every year and apply the recommended quantities. *Campesinos* who produce mainly for own consumption and sell surpluses at the market apply more mineral fertilizer than comparable producers in Cochabamba, despite the higher risks of production (less rainfall, more hail and frost). The reason is that producers in Potosí have less organic material at their disposal. Smallholder producers who are not able to satisfy their household needs through their own agricultural production use some fertilizer (contrary to comparable farmers in Cochabamba), but in minor quantities only.

In Potosí (with exception of seed potato producers) mineral fertilizer is used to avoid a gradual reduction in output. Fertilizers serve as a palliative remedy against land degradation, not as an investment aimed at increasing returns. Of all mineral fertilizer users, 85% achieve higher yields than those farmers who do not apply fertilizers, but only 35% of the fertilizer users yields more now than a decade ago (Aguilar et al. 1996).

**Box 7. A defence strategy against climatic risks**

Emiliano H. produces mainly for family consumption and sells surpluses to traders. He cultivates on five different plots in the Potosí Highlands, at three different ecological altitudes. The highest plot is dedicated mostly to the production of bitter potato for *chuño* (freeze dried potato), the lowest plot for vegetable production. Three plots are located at the same altitude within 5 kms from each other. Each of these plots is divided into subplots, of which one part is left fallow and the others are cultivated in rotation. The rotation system is designed in such a way that potato can be grown on each plot every year. Although all plots receive the same amount of inputs, including small quantities of mineral fertilizer, yields vary widely from year to year and from plot to plot. This is determined by a single factor: micro-climate. Rainfall, nightfrost and hail may damage crops very locally. The defence strategy against extreme local climatic differences has been spatial diversification. Fertilizer is not used to increase yields or production, but to maintain a base for satisfactory yields, as long as the climate allows.

Source: Aguilar et al. 1996.

In conclusion, the use of mineral fertilizers is more widespread than in the past, since distribution improved as a result of fertilizer aid. Fertilizer aid has benefited more the *campesinos* with a market oriented production and less those producing mainly for their own consumption. Fertilizers are used hardly or not at all by *campesinos* unable to satisfy their household needs through agricultural production.

The contribution of fertilizer aid to poverty alleviation was assessed in relation to food consumption and cash income.

Of all fertilizer used in the country, 70% is used for potato production, 5% for maize, 3% for wheat, 5% for rice and the remainder for other crops, mainly vegetables. The

increases in yield resulting from fertilizer use vary from region to region and from crop to crop. Table 4.10 presents the quantity of NPK fertilizer used in relation to expected yields under smallholder cultivation conditions on the *Altiplano* and *Valles*.

**Table 4.10 Yield response of foodcrops to NPK fertilizer application under smallholder conditions on the Altiplano and Valles**

Crop	Application NPK (kg/ha)	Expected increase in yield (kg/ha)	Expected total yield (kg/ha)
consumption potato	50-0-0	1,000	<5,000
	100-90-0	2,500	5,000<X<10,000
	120-130-40	4,000–4,500	10,000<X<15,000
	130-130-80	5,500–6,500	>15,000
maize	60-40-0	700	2,000<X<4,000
	90-60-0	1,500	>4,000
wheat	60-40-0	700	>1,500

Source: FAO Fertisuelos 1995a.

Apart from anomalies, such as extreme drought, nutritional deficiencies in Bolivia do not derive from deficits in calory intake, but from the lack of variation. Increased production does not automatically imply an improvement in nutritional status, if this is not accompanied by a more diversified nutritional pattern (Prudencio 1993).

In general, if production of the main staple crop increases, only a minor part of the additional production will be used for family consumption, while the bulk will be sold on the market (to urban consumers) or interchanged. Only part of the resulting cash income is spent on (processed) food; the major part is used for transport, cattle and clothes.

Most additional production will be marketed. Additional income has been generated only if the revenues from the sale exceed the additional investment required. The relation between investment and returns is usually expressed in the gross margins of crop production and/or in the value-cost-ratio (VCR).

The FAO Fertisuelos project permanent monitors the VCRs for principal crops in different zones and publishes the 'respond-curves' and 'iso-VCR maps'. As an example, table 4.11 presents the VCRs of the principal crops in the Cochabamba region.

The potato crop responds best to fertilization, registering yield increases of up to 200%. A study on the profitability of seed potato production in different zones of the country observed a high profitability in all the zones studied and positive returns on investment in inputs, even under marginal production conditions. On average, the use of mineral

**Table 4.11 Overview marginal returns of principal crops in Cochabamba, 1993**

<b>Crop</b>	<b>NPK level</b> (kg/ha)	<b>Yield</b> (kg/ha)	<b>Yield differential</b> (kg/ha)	<b>Income differential</b> (US\$/ha)	<b>Cost fertilizer</b> (US\$/ha)	<b>Net profit</b> (US\$/ha)	<b>VCR</b>
potato, economic optimum	137-141-0	15,996	10,861	2,194	284	1,910	7.73
maize	63-41-0	3,349	1,156	205	91	114	2.25
rice	69-0-0	3,991	937	155	66	89	2.34

Source: FAO Fertisuelos 1995a.

fertilizer by a smallholder seed potato producer would increase his net income by Bs 2,000–3,000 per hectare (US\$ 420–625/ha) (Cornelissen 1993). Maize, rice and wheat are important staple crops, but cultivation under smallholder conditions present low response to fertilization. Low market prices for the products ensure that the VCRs remain below 3.

It can be concluded that fertilizer aid has contributed only marginally to an increase in food consumption by the *campesino* population, but that the use of fertilizers for cultivating potatoes (70% of all fertilizers used) has had a positive effect on the family budget.

(c) Effects on cropping patterns

Since mineral fertilizers are used predominantly on three crops, this might have contributed to a change in the cropping pattern, assuming that the better performance of these crops induced a replacement of less profitable crops and/or an extension of the area under cultivation. Field research in Cochabamba and Potosí indicates that some zones experienced a concentration of crops with higher productivity (e.g. production of potato seed), releasing certain marginal areas for other activities, such as livestock. In the areas investigated, the use of fertilizers has had a two-tier impact on cropping patterns:

- the replacement of crops grown for household consumption by crops with a higher commercial value (e.g. potato for quinoa; wheat for barley);
- the displacement of native potato varieties for varieties with a higher demand on the market (Aguilar et al. 1996:82).

There is, however, no significant evidence that substantial changes in cropping patterns have taken place resulting from the Dutch fertilizer aid programme.

(d) Effects on rural women

The access of women to aid fertilizer, as well as the effects of fertilizer use on the workload and income of women were analysed.





Interviews were held among female agricultural producers and female fertilizer retailers in Potosí and among female producers in Cochabamba.<sup>2</sup> In both departments, tasks in agricultural production are gender and age determined. However, changes in society, with increasing off-farm employment, are demanding that each member of the household is able to perform all of the necessary tasks. All women interviewed in Potosí had to fulfil 'masculine' tasks, because they were either head of the household, single or their husbands migrate for long periods. In Cochabamba, where male migration is less salient, agricultural tasks are still more gender related (Conesa 1993; Nommensen 1993).

The organizations distributing Dutch fertilizer aid did not have a differentiated policy regarding sales or credit facilities to male or female producers. In practice however, fertilizers were mostly distributed to the production unit, implying that most were physically handed over to male producers. It is unknown if female producers had equal access to aid fertilizers. Since the public distribution system was discontinued in 1992 and fertilizers are now sold at the local market, present access to fertilizers depends in first instance on purchasing power. Of all male headed households interviewed, 52% considered fertilizer purchases a family decision. Of the married female producers all but one considered fertilizer purchases a family decision.

Both in Cochabamba and Potosí women are well acquainted with mineral fertilizers and many of the female respondents attended courses sponsored by different development projects, labour unions, producers' associations or farmers' organizations. Of the female producers interviewed in Potosí, a remarkably high 93% used mineral fertilizers. This is probably explained by the specific characteristics of the respondents (young and well acquainted with the use of fertilizers) and by the proximity of retail markets.

Mineral fertilizer use has an impact on the workload of rural women. It has to be mixed with organic material and then applied. There is additional weeding, and an increased volume to harvest, with subsequently more work in gathering and grading, selecting seed potatoes, storing and marketing. The responsibility for the marketing of the staple food crop usually rests on the women (although there are this varies in different cultural-ethnic groups). Of the women interviewed in Potosí, about 30% considered their workload to have increased due to fertilizer use, mainly during the harvest and the subsequent marketing. The majority, however, could not remember producing without mineral fertilizer, or did not observe any difference. Most women said that the use of mineral fertilizers generates a higher cash income, which is usually administered by them.

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<sup>2</sup> Interviews in 11 communities in the Cornelio Saavedra province, Potosí and at the rural market of Villa El Carmen. Interviews among female producers in 13 communities in Cochabamba. October 1995.

## (e) Environmental effects

Environmental considerations play a pivotal role in the debate on sustainable smallholder agriculture. During the 1980s information about eventual environmental effects of fertilizer use was rather scarce in Bolivia. Bolivian authorities observed that the Netherlands, being the principal supplier of mineral fertilizer, never accompanied these supplies with technical assistance or information about these environmental effects. In Bolivia, the average application rate of mineral fertilizers is very low, as compared to neighbouring countries. The FAO estimates that in 1996 average fertilizer application did not exceed 4 kg/ha. Table 4.12 presents a comparison over time. Smallholder farmers apply mineral fertilizer far below the recommended quantities, so it is thinly spread and will not have a direct negative impact on the soils or pollute groundwater.

**Table 4.12 Average kg NPK/ha in Bolivia and other South American countries, 1975–1991**

Year	Bolivia	Ecuador	Peru	Colombia
1975	1.8	19.2	35.7	59.1
1980	1.6	47.3	36.6	84.1
1985	2.9	45.0	21.9	96.0
1990	2.4	39.4	36.8	154.6
1991	2.8	49.4	22.6	138.7

Source: FAO 1992.

However, in some areas (e.g. *Pampas de Lequezana*) mineral fertilizers have been used under erratic precipitation conditions and in excessive quantities, resulting in mineralization of the soils. The use of chemical inputs was accompanied by mechanization, which required manoeuvring space for tractors and agricultural equipment. Natural obstacles were removed, which caused extensive aeolian erosion. With some variation, the solubility threshold in Bolivia is 400 mm/year, so in areas with precipitation below that threshold there is a high risk that fertilizers will be insufficiently absorbed by the plants. In Bolivia, the use of mineral fertilizers is considered to have more positive than negative environmental effects. Fertilizers are indispensable to the improvement of nutritional level in the soil, while organic fertilizers are necessary mainly to improve the soil texture (FAO Fertisuelos 1995a). Demand for fertilizers has always been lower in the large scale commercial agriculture of the eastern departments, given the possibilities for the expansion of cultivated areas and the natural fertility of the soil. However, soil exploitation over the last decade is causing land degradation, while protection of the remaining forest areas impedes further shifts eastward. Sugar cane and soybean producers have started to use fertilizers. Here, mineral fertilizer use might have a positive environmental impact, in the sense that it might help to stop, or at least diminish, the large scale destruction of the rainforest.

In conclusion, with some exceptions, fertilizer use has not been harmful to the environment. On the contrary, it has helped or may help to slow down the rate of land degradation.

#### ***4.3.7 Efficiency of fertilizer aid***

Three kinds of efficiency were assessed: the efficiency of time use and procedures; efficiency in the use of financial resources, and efficiency compared to opportunities.

##### *Efficiency of time use and procedures*

During most of the 1982–93 period, fertilizer aid was the responsibility of the Multilateral Development Cooperation and Special Programmes Department (DMP) within DGIS. From 1986, advice on fertilizer aid was required from the Technical Advice Section of the Sector Policy, Spearhead Programmes and Technical Advice Department and was coordinated after 1987 with the Department for Southern America.

Up to 1990, the timing of fertilizer supplies depended in the first instance on administrative convenience for DGIS (which preferred the month of December for its disbursements) and not on the agricultural season in Bolivia. The fertilizer arrived either too late for the cropping season, when the farmers really needed it, or just too early, so it had to be stored for prolonged periods, with all the consequent risks of technical and administrative mismanagement, political (ab)use and speculation (Van Dierendonck and Rodts 1991). After 1990, the timing improved and shipments were sent according to the agricultural season in Bolivia.

Appraisal studies were relatively ‘thin on the ground’ during the early years and the information provided was rather obsolete and imprecise. From 1987 onwards monitoring was entrusted to an expert at the MCTH, who drafted ‘Letters of Implementation’, stating the objectives, responsibilities, criteria, distribution, price setting and the expected generation of countervalue funds of the fertilizer deliveries. Procedures and responsibilities became regulated in a practical, transparent and efficient manner. However, during 11 years of fertilizer donations, an appraisal-identification mission took place only once (1990).

##### (a) Management capacity of organizations involved.

In the course of time communication problems and misunderstandings, mainly between the embassy of the Netherlands in Lima and the MCTH in Bolivia caused irritations and delays (Buitendijk 1995b:2,4,8). On the Bolivian side, most governmental institutions involved in the management and distribution of the fertilizers were either temporary from the beginning or were closed during the reorganization of the public administration.

Frequent changes had a negative impact on efficiency. Lack of continuity in responsibility for the administration was combined with an absence of an integral policy encompassing prices, marketing and credit for fertilizers. Although most institutions involved performed their functions more or less adequately, most decisions were taken on an ad hoc basis.

(b) Efficiency in distribution of fertilizer aid.

The first fertilizer deliveries faced multiple logistical problems (the fertilizers were held up at the railway warehouses because the BAB did not have sufficient means of transport; problems with insurance and customs; political interference), but they were solved in one way or another. Generally speaking, the donations were well received and dealt with by the beneficiary institutions. The support of the expert at the MCTH was of primary importance in organizing the receipt and distribution of the fertilizer.

#### *Efficiency in the use of financial resources*

Purchases of fertilizers took place according to pre-defined procedures, and after 1984 in accordance with the DGIS procurement guidelines. These were in conformance with internationally agreed principles (OECD-DAC). Calls for tender were issued by the VIB. Usually, four or five firms were invited to bid. The selection criteria, the technical monitoring, the procedures to define the transport route, insurance, etc, were all set by the VIB.

From an agronomic point of view, the right type of fertilizer formulas were procured, suitable for most soils in Bolivia and known by the smallholder producers. Both the DAP 18-46-0 and Urea 46% have a high concentration of active elements, which to some extent efficiently offsets the high transportation costs. During the first two donations, all fertilizer was of Dutch origin. From 1987 onwards, the procurement of fertilizer by the Netherlands was partially untied. Of all fertilizer supplied, 45% was of Dutch origin, and the remainder came mainly from Morocco and Turkey. In general, prices complied with those prevailing at the world market, with exception of Urea, which could have been procured at lower prices (10–20%) in other ESCs, especially in Argentina (Bialowas, van Kouterik and Van der Windt 1994:24).

The transport of the fertilizers was mostly carried out by Dutch companies, which were usually selected on invitation, with a waiver on tendering procedures. The selection of transport routes was not always the most efficient, considering the final destination within Bolivia. Routing improved after 1990 (Van Dierendonck and Rodts 1991).

The tying of procurement of fertilizer to the Netherlands and ESCs, may have been restrictive, in that it could have been more efficient to procure fertilizer elsewhere, for

example in a non ESC. Price comparisons indicate that in financial terms (c&f price La Paz) the fertilizers procured proved to be competitive in the case of DAP, and only slightly more expensive than commercial imports in the case of Urea (Bialowas, Kouterik and Van der Windt 1994:21–25).

In conclusion, fertilizer procurement was efficient, although additional benefits could have been obtained if purchases of Urea had taken place in neighbouring countries. Since international shipments were usually directly contracted, efficiency might have been improved by a tendering procedure.

#### *Efficiency compared to alternative opportunities*

Efficiency is also expressed by alternative opportunities. Since import support is a macro-economic instrument, an alternative form of support to the balance of payments could have been direct budget support, enabling Bolivia to procure fertilizers on the international market. In 1982, when official diplomatic ties had still to be re-established, this was not a politically viable option. Currency aid requires full confidence in the policies of the recipient country and this was not the case in 1982/83, or during the years that followed.

### **4.3.8 Fertilizers and sustainable development in Bolivia**

#### *Sustainable markets and the distribution of fertilizers*

A sustainable market for fertilizers refers to both supply and demand factors.

##### (a) Sustainability of supply

Once all fertilizer aid has been phased out, the supply of fertilizers will depend entirely on commercial imports. The small size of the national market will not justify the installation of a local fertilizer plant, while—according to existing feasibility studies—export opportunities are bleak. At present (1996) the commercial sector is not sufficiently equipped to supply the market for the following reasons:

- the current monopolistic structure of the market allows only one company to generate sufficient capital for commercial imports;
- potential competitors without sufficient capital are unable to import in bulk since trading credit is expensive and difficult to obtain from Bolivian banks.

Dutch fertilizer aid did not help to establish a sustainable supply of fertilizer. The temporary distribution systems which were created have all been discontinued. Neither the

Bolivian authorities nor the Netherlands took initiatives to involve private traders (e.g. in a transitional phase) in order to facilitate the development of import and distribution systems which might have been more permanent.

Commercially imported fertilizers are negatively affected by current tax policies. The present level of tariffs (totalling about 30%) impedes imports and affects the competitiveness of agricultural production.

(b) Sustainability of demand

Fertilizer aid contributed to increased demand. National demand has doubled since 1983, reaching a current total of 15,000–20,000 mt, and is expected to increase to 40,000 mt/year in the next few years (FAO 1995f), because:

- large scale commercial farmers in the eastern provinces will increasingly use mineral fertilizer on crops like soybean and sugar cane;
- the percentage of cultivated area on which fertilizers are being used is extremely low, as shown in table 4.13:

**Table 4.13 Use of fertilization in % of cultivated area**

<b>Crop</b>	<b>% not using fertilization</b>	<b>% using fertilization</b>	<b>Of users, % using mineral fertilizers</b>	<b>Of users, % using organic fertilizers</b>	<b>Of users, % using both mineral and organic fertilizers</b>
potato	11	89	6	63	30
maize	70	30	27	63	14
wheat	70	30	42	48	10
rice	98	2	93	7	0
vegetables	50	50	18	60	22
fruits	95	5	11	51	38
soya	88	12	100	0	0
sugar cane	91	9	100	0	0
overall average	71	29	28	54	18

Source: FAO 1995a.

*Sustainability of fertilizer use by smallholder producers*

Sustainability in agriculture is understood as the ability to satisfy production needs and allowing an improvement of living standards, without affecting the future use of natural resources.

The ecological sustainability of fertilizer use under smallholder conditions, without access to irrigation, is restricted to areas with an average precipitation over 400 mm/year (the

solubility threshold). From the farmers' economic point of view, other climatic conditions (such as the risk of hail and nightfrost) also define the sustainable use of fertilizer.

In the eastern lowlands, the use of fertilizer will enable sustainable agriculture and might have positive ecological effects. The FAO carried out extensive studies on sustainable agriculture in Bolivia, using mixtures of organic and mineral fertilizers in combination with improved agronomic and mechanical methods of soil protection. It was concluded that sustainable agriculture does not mean completely refraining from the use of mineral fertilizers but, on the contrary, requires balanced use in combination with and complementary to organic material as far as locally available.

#### **4.4 Other cases of import support**

Apart from fertilizer aid and medicine aid, four individual cases of import support are described briefly:

- (a) the donation of a Fokker F-27 airplane and spare parts;
- (b) the supply of low-energy Philips SL electric bulbs;
- (c) the reimbursement of invoices for pipes purchased by the National Oil Company (YPFB);
- (d) the supply of agricultural equipment.

(a) The donation of a Fokker airplane and spare parts

In 1984, the Bolivian authorities requested disbursement from the balance of payments support funds for the acquisition of two second-hand Fokker F-27 airplanes. The airplanes would serve the 'social routes' to remote areas not frequently covered by regular airlines. Initially DGIS considered the donation of Fokker airplanes as 'ineligible'. An important argument against the delivery was that the recipient institution would be the Military Air Transport (TAM). A second argument was that no cost-benefit study had ever been carried out and a third one that medicine aid and telephone cables would be better suited to the programme. However, the Bolivian authorities never applied for telephone cables, while cost-benefit studies were not part of the usual appraisal instruments for the import support programme. The day after the formal refusal, the Netherlands embassy asked for reconsideration of the decision and various interested parties became involved. The arguments were no longer strictly technical, and became political. For example, it was observed that the government of the Netherlands had authorized the sale of Fokker airplanes to the former regime of dictator García Meza and now refused the delivery of airplanes to a democratic regime. In order to overcome the argument against military use, the Ministry of Aviation of Bolivia changed the recipient organization to the civil airline Lloyd Aéreo Boliviano (LAB).

In the meantime two Bolivian Fairchild planes crashed, one on the same day a high level Bolivian delegation visited the Dutch Minister of Foreign Affairs. The next day, the Minister for International Development Cooperation authorized the donation of one airplane, considering the importance the Bolivian authorities had attached to the request (Tweede Kamer 1985–86, 19 465:48, 49).

It was agreed that the countervalue funds would be deposited on the accounts of the new FSE. In 1991, FIS reported that LAB had paid all 24 monthly instalments, totalling US\$ 2.91 million.

In 1986, the Bolivian authorities requested a second Fokker airplane, as well as spare parts for the airplanes in use by LAB and TAM. DGIS authorized the supply of spare parts to a value of Dfl. 4.4 million, but rejected the application for a second airplane. In 1987, the request for spare parts was repeated, this time to a value of Dfl. 3.5 million, using the reimbursement procedure. Although the request was rejected by DGIS, existing commitments between the Fokker company and LAB, persuaded DGIS to increase the budget of the first allocation by Dfl. 2.1 million, bringing it to a new total of Dfl. 6.5 million. The Fokker company delivered spare parts valued well in excess to the agreed budget. Later, the Bolivian authorities decided to use the remaining funds to buy back the commercial debt, and Fokker was left with unpaid invoices.

(b) The supply of long-life low-energy Philips electric bulbs

In 1986, the National Electricity Company requested the Netherlands for assistance by supplying Philips low energy lamps. The embassy in Lima suggested that DGIS procure these long-life bulbs as a component of the 1986–87 balance of payments support programme. The lamps were to be used for street-lighting in Santa Cruz, Tarija and Trinidad. The VIB procured 150,000 Philips 18 Watt SL lamps, costing a total of Dfl. 3 million.

The Bolivian Ministry of Planning and Coordination required that the lamps should generate countervalue funds, to be deposited in the Social Emergency Fund. Therefore, the lamps had to be sold at ‘market prices’. However, it was unclear what was understood by ‘market price’ since the bulbs were new on the Bolivian market and import parity prices would mainly reflect the cost of long distance transport. The Ministry established a selling price of between US\$ 7 and US\$ 12 per unit. Since the electricity company could not afford to purchase the lamps for street-lighting at that price, it decided to sell them to other institutions and to the public.

Notwithstanding their low energy consumption, the price of the lamps appeared to be an obstacle for sale to the public and, in February 1992 (five years later), over half were still in stock, with no marketing prospects. At the request of the DIFEM, the Netherlands



mission in La Paz approved the transfer of the remainder to the Social Investment Fund, without the obligation to generate countervalue funds. At the end of 1996, the lamps were still being used by the FIS in infrastructural projects. About one third of the original quantity was still in stock.

(c) The reimbursement procedure of invoices for pipes purchased by YPFB

In December 1986, DGIS informed the embassy in Lima that the balance of payments support procedures allowed the reimbursement of invoices for imports of inputs from eligible source countries. This suggestion was taken up by the Bolivian authorities, who sent invoices for a total of US\$ 9.4 million for the purchase of steel pipes from the Mexican enterprise Tubacero by YPFB. DGIS decided to reimburse Dfl. 11 million (approximately US\$ 3.8 million). An extensive and agitated correspondence took place in the same month, most likely since, of the Dfl. 35 million budgeted for the 1986/87 programme, Dfl. 17.5 million had to be spent during 1986. In 1987 the Court of Audit observed this urgency, and accepted the argument that the reimbursement procedure met the criteria of the balance of payments support programme and could be employed as a rapid method to support a weak economic situation in the country. Another reason to opt for the reimbursement procedure was the previous refusal by DGIS to fund two specific requests: the donation of a second Fokker airplane and the installation of electrical turbines in Camiri. The latter request did not qualify as an activity to be funded by the import support programme, since it was considered to be a specific project. The reimbursement procedure opened up the possibility for the Bolivian authorities to implement this project using Dfl. 7 million in Dutch currency as prepayment for the acquisition and installation of these turbines from the Dutch companies EBRO and DYNAF. The reimbursement procedure was discontinued in 1992.

(d) The supply of agricultural equipment

As part of the first balance of payments support programme (November 1982), DGIS approved Dfl. 8 million for the supply of agricultural inputs, including veterinary products and equipment. However, the equipment could not be obtained from manufacturers in the Netherlands (tied aid) and was not supplied. During the second programme Bolivia received only 9% (in value) of the equipment requested (knapsack sprayers, threshers, and a hammermill). The third request (1987), made in the aftermath of Bolivia's worst drought in history, comprised motor pumps, (motor) pulverizers, threshers and potato harvesters. After a long and confusing bureaucratic process DGIS approved the procurement of only five threshers. In 1988, the Bolivian authorities requested permission to use Dfl. 5 million from the 1988/89 commitment for the purchase of agricultural equipment. However, the fertilizer aid appeared to be more expensive than expected, and DGIS reduced the budget for agricultural equipment to Dfl. 3.5 million. In March 1990 (a year and half later), the Netherlands embassy in Lima reported to the MCTH in La Paz that agricultural equipment

no longer met the conditions of the balance of payments support programme. This proved to be a misunderstanding. In the meantime, a new budget allocation totalling Dfl. 20 million for the years 1990 and 1991 had become available and the embassy suggested that the Bolivian authorities reformulate their request once again, including this time the remaining Dfl. 3.5 million from the 1988/89 programme.

Motor pumps, hand pumps and threshers were requested. The VIB enquired about the technical specifications and suggested the purchase of pumps equipped with pipes of 8–16 metres in depth. Prices were lower than expected and VIB purchased 1,250 manual pumps (instead of the 200 requested) and 575 motor pumps (instead of the 300 requested). According to the Letter of Implementation (February 1991), it was expected that US\$ 1,500,000 would be generated in countervalue funds.

Three missions by the manufacturer of the manual pumps (van Dam 1991ab, 1993) concluded that the Ministry of Agriculture was not able to install (lack of drilling equipment) or retail the pumps. Groundwater levels proved to be at 30–50 metres depth. DGIS approved an additional supply of spare parts and installation materials totalling Dfl. 79,000 while, after the second mission, additional tubes were purchased for Dfl. 500,000. However, DGIS did not approve the purchase of drilling equipment to perforate rocky layers. Selling prices were initially set at the cost price (US\$ 750 per motor pump). Both the mission and the National Council of Donations considered this price too high and agreed upon a reduction to US\$ 420 per unit. The third mission found that only thirteen pumps had been sold. The manual pumps were sold at the same price as the motor pumps. Locally manufactured manual pumps had become available at US\$ 195 per unit, while imported Japanese motor pumps were sold at US\$ 250 each. In addition, the demand for manual pumps had decreased because of the progress in rural electrification.

In 1994, the Secretariat for Agriculture (SNAG) consigned the sale of pumps and threshers to the Central Agricultural and Livestock Warehouse (ACAP), the trading company of the Agricultural Chamber of the Eastern Departments (CAO). ACAP observed that whole units and spare parts were missing and never received the additional pipes supplied in 1991. Manual pumps were still being equipped with only 12 metres of pipe instead of 50 metres. It was agreed that the selling price for manual pumps would be further reduced to US\$ 140 each (US\$ 100 for SNAG) and motor pumps US\$ 300 (US\$ 150 for SNAG). ACAP is a trading company and sells to any client. The motor pumps are sold mainly to contractors to pump water at construction sites and to fuel stations which use them to pump gasoline between tanks.

In February 1996, all the rice and wheat threshers had been sold; 31 of the 34 threshers were purchased by the FAO Post-harvest project. The pumps are rarely sold to agricultural

producers. The cost of borehole drilling constitutes the principal obstacle for interested smallholders. Much of the capacity of the *pozeros* (the companies that drill the boreholes) lies idle, and they offer low prices (US\$ 800) for drilling and a complete installation, for which they use Brazilian manufactured equipment. Sales remained below expectations (see table 4.14). Between February and August 1996 not one single manual pump was sold and SNAG approved a further 50% price reduction to US\$ 70 each (US\$ 50 to SNAG).

**Table 4.14 Equipment sold by ACAP**

Equipment	Sold by ACAP (number)	Consolidated with SNAG (number)	In stock 1996 (number)	Total monetized (US\$)	Consolidated monetization, SNAG (US\$)
threshers	34	23	0	34,000	23,000
motor pumps	104	97	362	15,600	14,550
manual pumps	154	117	995	15,400	11,700
total	292	237	1,357	65,000	49,250

Source: ACAP records, 22-2-96; SNAG Aid Memoire 14-2-96.

*Some conclusions*

Apart from an identification mission in 1986, no field appraisals took place regarding the requested use of the import support programme. So markets, prices and technical specifications of the import goods were either unknown or disregarded.

The supply of light bulbs was an interesting idea on paper, since it would save foreign exchange by contributing to a lower energy consumption. In practice, however, there was no market since the unit price of the lamps proved to be an obstacle for potential customers.

The reimbursement procedure was used as a kind of camouflage to finance the installation of electricity turbines by a Dutch company, but the delivery of the Fokker airplane— notwithstanding the initial reluctance— complied with the requisites: airplanes would have been procured by the Bolivian government anyhow, so it saved foreign exchange and it generated all the expected countervalue, which were correctly used in support of the public budget.

The supply of agricultural equipment has not been relevant, either at macroeconomic, or microeconomic level. It should be considered as entirely additional (no previously

existing imports were substituted), hence the support neither reduced deficits in foreign exchange nor alleviated the trade balance. The contribution to the public account was negligible since, until early 1996, only 6.5% of the cost price had been generated in countervalue funds. No particular policy in the agricultural sector was supported by the donation and institutions were not strengthened, either by distribution activities or by the generation of countervalue funds. The equipment did not reach the intended beneficiaries: motor pumps were purchased by construction companies and fuel stations.

There was a clear absence of appraisal studies to assess technical details and marketing aspects. This was a procedural inefficiency.

## **4.5 Generation of countervalue funds**

### ***4.5.1 Generation of countervalue funds***

Dutch policy on the generation and use of countervalue funds was described in par.3.2. The Letters of Implementation on import support to Bolivia all indicated the expected generation of countervalue funds (e.g. in the case of fertilizer an equivalent of 90% of the market price; for agricultural equipment 90% of the cost price; for the delivery of the Fokker airplane a fixed amount per month). They also set conditions regarding the use of the countervalue funds, ranging from general indications to specific obligations. No direct monitoring took place on the generation of countervalue funds, but an annual audit was compulsory. The Netherlands embassy in Lima (and later the MCTH in La Paz), determined to a large extent the use of the countervalue funds.

No complete data on the generation and use of countervalue funds could be obtained, due to frequent changes in the authorities responsible for the administration. At least six institutions have been responsible: the BAB, MACA (subsequently the SNAG), the Ministry of Planning and Coordination, the Secretariat for External Financing and Monetization, the Ministry of Social Prevention and Public Health (subsequently the National Secretariat for Health), and Lloyd Aéreo Boliviano.

On the ground, reality was complex: the fertilizers did not arrive at the same time, but in different shipments; not all deliveries were sold during the same year, hence remainders from previous years were sold at prices prevailing at the moment of sale; the Dutch authorities required that certain quantities were delivered free of charge to institutions (IBTA) or projects (FAO); substantial quantities were delivered to retailers or to producer associations on credit or on consignment (and many of them never paid). Since auditing took place on the basis of stock turnover by calendar year (covering parts of two different

agricultural seasons), both the Bolivian and the Dutch authorities soon lost track. There were repeatedly accusations of dubious management, embezzlement and political abuse (Press articles: *La Razón*, November 11th, 1991 and December 8th, 1992). Hyperinflation and free-of-charge distribution (medicines) during the initial years affected the generation of countervalue funds negatively.

The following observations can be made:

- the monetization of fertilizers and insecticides supplied by the 1982/83 programme took place in a period of hyperinflation. The countervalue funds represented approximately 30% (at the official exchange rate) of the cost price at the moment of registration,<sup>3</sup> but only 0.5% of the c&f value at the moment of their use; medicines only generated 0.9 % of c&f value in countervalues;
- the 1984 programme (fertilizers, insecticides, medicines and the airplane) also suffered from hyperinflation. Fertilizers and insecticides generated about 13% of the c&f cost price. The airplane generated a 100% of the expected countervalues, in accordance with the Letter of Implementation. Due to changes in exchange rates this implied a 138% yield on its cost price in terms of US dollars. Medicines did not generate countervalue funds since they supported free-of-charge health care programmes;
- the 1986/87 programme (fertilizers, insecticides, agricultural equipment, light bulbs), generated countervalue funds representing 55% of the c&f cost price and 80% of the estimated funds, without taking into consideration the supply of airplane spare parts, for which no data are available regarding countervalues, and the reimbursement for iron pipes;
- the 1988/89 programme (fertilizers) generated countervalue funds equivalent to 87% of the c&f costprice;
- the 1990/91 programme (fertilizer and agricultural equipment) generated more than the expected countervalue funds for fertilizer sales (prices were higher than the cost price), but the marketing of agricultural equipment generated only 6.5% of the cost price.

The monetization of the import supplies generated the following amounts:

In summary, on average the countervalue funds represented nearly 62% of the cost price of the goods supplied, but also 99% of the estimated generation of countervalue funds, as stated in the Letters of Implementation.

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<sup>3</sup> The Netherlands embassy verified accounts in the BCB and BAB and reported Dfl. 2.4 million (in pesos bolivianos) (October 20th, 1983).

**Table 4.15 Generation of countervalue funds by the monetization of donations**

<b>Budget year Netherlands</b>	<b>Value of supplies</b>	<b>Expected generation of countervalue funds</b>	<b>Generation of countervalue funds</b>	<b>Value generated as percentage of expected countervalue funds (%)</b>	<b>Value generated as percentage of cost-price of countervalue funds (%)</b>
	(‘000 US\$)	(‘000 US\$)	(‘000 US\$)		
1982/83	4,900.0	1,750.0*	294.0	16.8	6.0
1984	8,700.0	2,975.0*	3,410.0	114.6	39.2
1986	4,500.0	3,800.0	3,367.2	88.6	74.8
1988/89	5,400.0	3,900.0	4,690.7	120.3	86.9
1990/91	10,000.0	8,500.0	8,897.8	104.7	89.0
Total	33,500.0	20,925.0	20,659.7	98.7	61.7

Source: Data DGIS, DIFEM, FIS.

\*approx.

#### **4.5.2 Destination of countervalue funds**

Between 1983 and 1987, the embassy in Lima specified explicitly the destination of the countervalue funds. From 1987, the MCTH included the destination of countervalue funds in the Letters of Implementation. After 1990, in line with its policy, DGIS requested the MCTH to refrain from any conditioning on the use of countervalue funds. In practice however, the Bolivian authorities invited the MCTH to indicate the ultimate destination of countervalue funds. The Netherlands had always participated in the decision-making on the use of the funds. Most decisions were taken on an ad-hoc basis by a succession of committees.

Although, from the start, there was a basic principle that countervalue funds would be used to finance budgeted public expenditures (which was explicitly reiterated in correspondence afterwards), until 1992 the funds were administrated external to the budget, on special accounts accessible only to the counterpart institutions (BAB, MACA, Min. of Planning and Coordination). In 1992, DIFEM established a more transparent administration and it was established through a Supreme Decree (4 February 1992) that the countervalue funds were to be transferred to the public budget. Since then countervalue funds have ceased to be an additional source which could be used freely by the government bodies administering them.

From the start of the import support programme, the Netherlands always allocated part of the deliveries to specific projects or institutions, such as the FAO fertilizers project, IBTA and the Centre for Agricultural Research in the Tropics. The Letters of Implementation indicated the final destination of the countervalue funds. For example, in the case of the

light bulbs, the airplane, etc., countervalue funds had to support the FSE (see chapter 6). In the case of more continuous supplies, such as fertilizers, countervalue funds had to be used to strengthen the counterpart institutions, such as the BAB, the MACA, the Ministry of Planning and Coordination or the MPSSP. A summary of the destination of countervalue funds is provided in Annexe 2 (table A.4).

Dutch policy on countervalue funds sometimes came as a surprise to the Bolivian authorities. While the Netherlands initially imposed the final destination of the funds (and even part of the supplies), at a later stage the MCTH was explicitly prohibited by DGIS to get involved in determining the destination of countervalue funds. While other countries set up special Countervalue Funds to channel resources in support of specific sectors of interest to their bilateral programme, the Netherlands seemed, in the view of the Bolivian authorities, to have lost interest. This caused confusion, since the Bolivian authorities wanted the Netherlands to be present, as an active observer, guaranteeing the transparency in the use of these funds and protecting them against political abuse or embezzlement.

In conclusion:

- until 1992, the registration and management of countervalue funds lacked transparency;
- during the 1983–92 period funds were considered to be an additional cash account for the administering body; these resources were a temptation to various public institutions;
- since the funds were additional to the budget allocation, they could be used for emergency needs in the agricultural sector;
- during the administration period of the MACA, when the Netherlands withdrew their active involvement in determining the destination of the funds, use of the funds became vulnerable to mismanagement;
- the Dutch policy of non-interference in the destination of countervalue funds was interpreted by the Bolivian authorities as a lack of interest and concern;
- since 1992, the countervalue funds have been managed according to the DAC guidelines.

#### **4.6 Conclusions on the import support programme**

During the 1982–95 period, the Dutch import support programme to Bolivia amounted to Dfl. 96.7 million and consisted predominantly (60%) of fertilizer aid. Only fertilizers (some 63,000 mt), insecticides and medicines were supplied on a repetitive basis, all other donations were made only once.

The first fertilizer and medicine donations took place before the start of the structural adjustment programme in Bolivia, and were provided in the absence of a bilateral development cooperation programme. They were given to provide moral and economic

support to the democracy. After 1986, the continuation of the programme was justified as support for the macroeconomic reform programme.

To the Netherlands, the import support was initially an instrument to relieve pressure on the balance of payments by providing foreign exchange indirectly, and later to support macroeconomic reform. From the Bolivian point of view, the principal donations, such as fertilizer aid and medicine aid, were seen as support at the sectoral level.

Contrary to supplies of medicines, airplanes and airplane spare parts, fertilizer aid was not among the priorities set by the Bolivian authorities. It was a Dutch initiative from the beginning. The agricultural sector did not figure among the key sectors for economic development, either before or after the start of the structural adjustment programme in 1985. Fertilizers did not play any role of importance in the policies defined for the agricultural sector either, so the policy relevance of fertilizer aid should be considered low from the Bolivian point of view. In the Netherlands point of view, most import support is considered relevant, providing support to priority sectors of the Dutch bilateral programme and aiming at the poorer strata of the population.

In the case of medicine supplies, which supported, strengthened and even enhanced government policy for the health sector, the policy relevance was high, as has been the case with the delivery of the aircraft.

Quantitative measurement of the macroeconomic effects of relatively small interventions is practically impossible. The possibility to assess the *effectiveness* of balance of payments support at the macro level depends on the fungibility or additionality of the donations. While in the case of medicine aid and the delivery of the aircraft the donations replaced imports that would have taken place anyhow, this could not be confirmed in the case of the supply of light bulbs or agricultural equipment, which should both be considered as additional. It has been assessed that, in the case of fertilizers, approximately 60% of the donations were additional. In practice, the effects of the import support cannot be traced on the trade balance, since the value never represented over 0.5% of the total imports of the country.

It is most likely that the dissemination of fertilizer use was enhanced by the donations from Japan and the Netherlands, which may have contributed to increased national food production, and hence a reduction in food imports. This would imply an indirect effect on the trade balance. However, this relation could not be confirmed, since variations in food crop production depend in the first instance on climate, while 70% of all fertilizer is used on potatoes, which are largely an internationally non-tradeable commodity in Latin America.



At the sectoral level the effectiveness of the support depends to a large extent on the capacity of the recipient sector to integrate the donation within existing policies and structures. For example, optimal use of agricultural inputs requires adequate price policies, an extension system, credit facilities and other support services. To a certain extent these were available at the start of the import support programme, but after 1986 all the services were largely dismantled (the Agricultural Bank was closed down and the extension system was reduced to a minimum). Medicine aid was incorporated into a public supply system and helped to improve this system (use of essential drugs and cost recovery).

At the micro level, fertilizer application apparently improved the cash income of smallholders, but hardly improved their calory intake. Cash crops replaced crops for own consumption, which in Bolivia implied mainly a replacement of local varieties of potatoes and wheat for varieties with a higher demand on the market. The medicine donations benefited the poorer strata of the population who previously had no access to the medicine market. The introduction of essential drugs guaranteed more affordable prices.

The environmental effects of the import support programme to Bolivia were studied only in the case of fertilizer aid. In Bolivia, these effects have been both positive and (in certain zones) negative. In general, smallholders apply fertilizers in quantities far below the recommended levels, so fertilizer application does not create an environmental hazard. Positive effects include the permanent use of soils in the eastern departments of the country, helping to reduce the rate of destruction of the rainforest. Negative effects occur in areas with a high application rate of fertilizer in combination with insufficient precipitation and/or absorption of nitrogen by the crops. Rural women interviewed had a good knowledge of fertilizer use. Although mineral fertilizer application increases their workload, this is rewarded by a higher cash income.

Dutch fertilizer grants were a price-setter on the market. Selling prices were set arbitrarily, mainly negotiated between government and farmers' associations and were not based on import parity. In practice, this usually implied (but not in all years) a subsidy to the farmers. Consequently, fertilizer donations have had the unintended side effect that commercial importers have been unable to compete and have gone out of business. In 1995 the market was monopolized by one single importer, which is also selling the Japanese donations. However, the distribution of Dutch fertilizers strengthened producer associations and unions, increasing their management capacity. The medicine distribution empowered the public provision system.

The procurement of the commodities supplied by the import support programme has been *efficient*, although procurement of particular types of fertilizers in Latin America might have been more economical. Less efficiency was displayed in the contracting

of international transport, which was not tendered, but contracted on invitation. After 1990, deliveries were usually in time (with exception of the agricultural equipment) and the Netherlands representation in La Paz guaranteed efficient procedures and an adequate follow-up. Thanks to the efforts of the MTCH expert, fertilizers were distributed efficiently. Technically, the fertilizer formulas suited well with the requirements of the Bolivian agricultural sector (notwithstanding deficiencies in soil analysis).

The appraisal of requests for the use of resources committed by the balance of payments support programme was conducted exclusively by the Ministry in The Hague. Coordination with the Bolivian authorities took place. Usually no field missions were organised. An evaluation-identification mission took place only once during a decade of fertilizer supplies. Both efficiency and effectiveness could have been better (e.g. in the case of the supply of agricultural equipment) if timely field appraisal had taken place.

The Dutch fertilizer donations never took the *sustainability* aspect into consideration. No efforts were made to contribute to or to create sustainable procurement and distribution systems. In the case of the medicine donations, these fitted into a policy aimed at establishing a cost recovery system and a fund to enable the procurement of medicines without any external support.

## 5 Debt Relief

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### 5.1 Origin and composition of the Bolivian external debt

#### 5.1.1 Categories of public debt

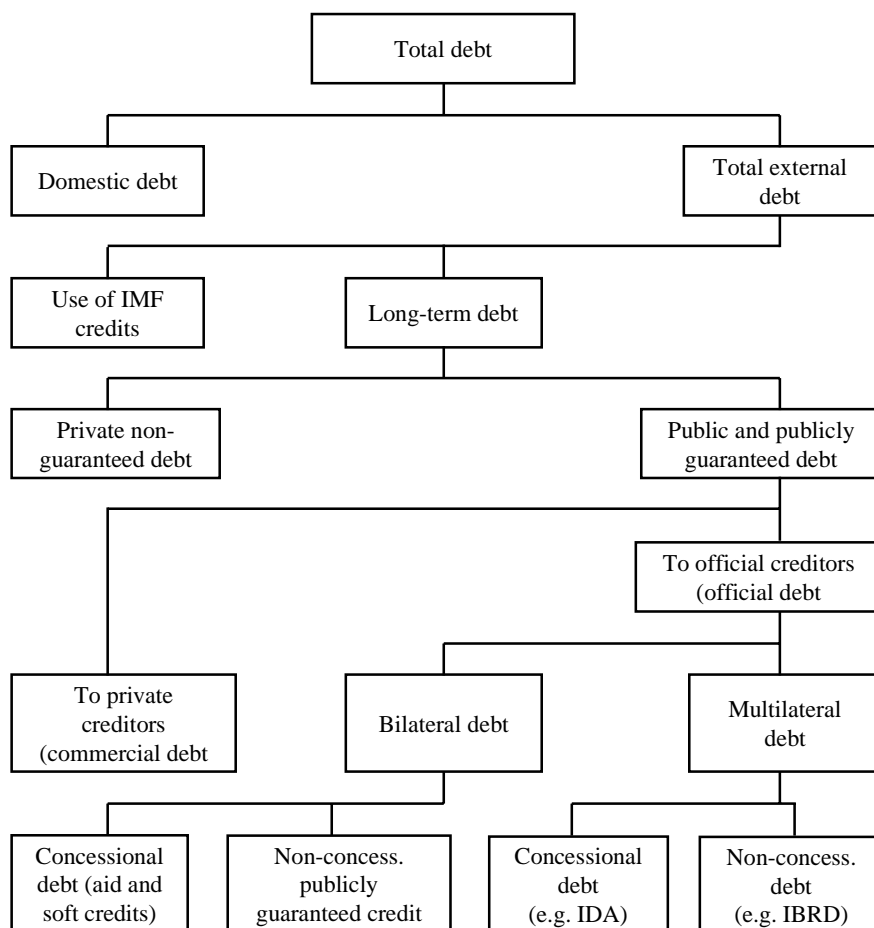
The concepts used regarding debt are those as generally practised by the Central Bank of Bolivia (BCB).<sup>1</sup> For definitions, see Annexe 3. A number of conceptual differences exist between the BCB and the World Bank, as expressed in its ‘Global Development Finance’ documents (World Debt Tables). In addition, the compatibility of the statistical material between the two sources is limited, partly due to the fact that Bolivia did not have a central register of its official debt until the early 1980s. Graph 5.1 summarizes the different debt components schematically.

Public debt is composed of domestic and external debt. Long-term external debt has three components:

- *public debt*, which is an external obligation of a public debtor, including the national government, a political subdivision (or an agency of either), and autonomous public bodies;
- *publicly guaranteed debt*, which is an external obligation of a private debtor that is guaranteed for repayment by a public entity;
- *private nonguaranteed external debt*, which is an external obligation of a private debtor that is not guaranteed for repayment by a public entity.

Public and publicly guaranteed debt can be classified according to its financing source into multilateral debt, bilateral debt and (part of) the commercial debt. *Multilateral debt* originates from loans and credits from the World Bank, regional development banks, and other multilateral and intergovernmental agencies (international financing institutions); *bilateral debt* arises from loans from governments and their agencies, and direct loans from official export credit agencies, while *commercial debt* or private bank debt includes

<sup>1</sup> In accordance with the legal provisions in force in Bolivia, the Central Bank is responsible for issuing the official statistics on the public debt.



**Graph 5.1 Debt components**

bonds, loans from private banks and private financial institutions, as well as credits from manufacturers, exporters and bank credits covered by a guarantee of an export credit agency. A particular type of both bilateral and multilateral debt is the *concessional debt*, which originates from the receipt of aid from official lenders at concessional terms as defined by the DAC, that is, loans with (at least) an original grant element of 25%.

The public commercial or private bank debt concerns only the public and publicly guaranteed part of the commercial debt. Until 1986, the public commercial debt was negotiated within the framework of regulations set by the Consortium of Private Banks, which was headed (in the case of Bolivia) by the Bank of America. At present the commercial banks lay down their conditions in the London Club, but Bolivia has always negotiated its commercial debt directly with the Consortium.

Public bilateral debt may be bound by concessionary or commercial conditions. Official non-concessional bilateral debt alleviation is usually dealt with within the Paris Club, an organization of the principal creditor countries set up in 1956 to analyse the debt situation in individual countries. Usually the bilateral *concessional debt* (Official Development Assistance debt) is negotiated between the creditor country and the recipient government and/or simultaneously within the context of the Paris Club meetings.

The multilateral debt consists of obligations to multilateral organizations of which Bolivia is a member, such as the World Bank, the International Bank for Reconstruction and Development (IBRD), the IDB, and the CAF. Bolivia has smaller debts with the International Fund for Agricultural Development (IFAD), the Development Fund for the Plata River Valley (FONPLATA), and the Organization of Petroleum Exporting Countries (OPEC). In accordance with the statutes of the multilateral organizations, these obligations cannot be renegotiated by the debtor countries. However, several multilateral debt service relief methods have been developed during the last decade. Low income countries like Bolivia received a substantial share of the loans on concessional terms (e.g. IDA).

### ***5.1.2 Origin of the external debt***

The origins of the Bolivian external debt are found in both external and internal causes. The most salient among the external causes was the specific financial situation in the 1970s, when many developing countries, including Bolivia, multiplied their long-term external loans. Thanks to the gradual increase in the world prices of primary products and raw materials that these countries exported their economies were growing. As a petroleum and gas producer, Bolivia had easy access to commercial loans. By the end of the decade the terms of trade started to deteriorate, while the relative prices of the export products (tin, gas) fell considerably. Due to the political situation in the country international cooperation discontinued, forcing Bolivia to look for financial resources elsewhere. The internal causes included the following:

- there was a gradual weakening of the import substitution model which had been applied since the 1950s;
- as a result of unsound economic policies, low domestic savings could not offset the massive flight of capital;
- there was a dictatorial and unstable political situation in the country, which:
  - discouraged investments by the private sector;
  - gave rise to investments by the public sector without certain financial profitability.

*Origin of the commercial debt*

A significant part of the commercial debt was contracted during the military regimes of the 1970s and the early 1980s. Access to other than private banks had become negligible. The main purposes of the loans were for investments in mining and the petroleum sector (YPFB), transport and communications. Contrary to what is commonly believed in Bolivia, there is no evidence that the private bank debt contracted was mainly used for military purposes.

The commercial loans to state companies were provided not only by banks, but also by suppliers. There was hardly any control, and some companies received an automatic government endorsement for their acquisitions and imports. The loans were contracted at variable interest rates and with short repayment periods.

In order to facilitate international debt relief negotiations, the National Treasury took over the bank debts from the principal public enterprises, such as the National Telephone Company, the National Railways Corporation, the Mining Bank, the Agricultural Bank of Bolivia, the Bolivian Mining Corporation, etc. This increased substantially the official public debt to private banks. The Treasury also subrogated some private sector bank debts, providing an official guarantee. Although this portfolio of private sector debts never exceeded 2.5% of the total commercial debt, it included a number of loans which led to questions being asked in the Bolivian Parliament afterwards.

*Origin of the bilateral debt*

Most bilateral debt was also contracted during the military regimes and used for economic and social development projects, such as airport construction, the telephone system, foundries, railway improvements and road construction. Development aid debt (concessional loans) did not reach sizeable amounts until 1985, while afterwards so-called mixed credit systems (when donor funds subsidize supplies delivered by private enterprises from that particular country) and aid loans increased the bilateral debt.

*Origin of the multilateral debt*

Multilateral debt relates to long-term loans issued by international financing institutions and regional development banks. Before 1985, the majority of these loans were granted for investments in infrastructure (roads, bridges, integrated development projects). The first Drawing Rights Agreement was signed with the International Monetary Fund in June 1986 for 50 million Special Drawing Rights. With the first loan for economic stabilization by the IMF in December 1986, the way was paved for loans from different multilateral

sources, all focused on funding the macroeconomic reforms. The lending by multilateral sources has increased significantly and has now reached sums of approximately US\$ 400 million annually (1995: US\$ 382 million).

### 5.1.3 The evolution and distribution of the external debt

Until the international debt crisis of 1982, the Bolivian external debt was relatively modest in comparison with other Latin American countries. In 1985 the Bolivian official external debt was US\$ 3.3 billion, low compared to, for example, Colombia (US\$ 11 billion) or Peru (US\$ 14 billion). The evolution of the external debt is shown in table 5.1.

**Table 5.1 Evolution of the Bolivian external debt in selected years (in US\$ million and in percentages) according to the Central Bank of Bolivia**

Year	Commercial	Bilateral	Multilateral	Total
1970	175.3 (33.6%)	289.5 (55.4%)	57.4 (10.9%)	522.2
1975	337.4 (38.2%)	366.6 (41.5%)	178.6 (20.2%)	882.6
1980	989.7 (44.6%)	625.5 (28.1%)	604.9 (27.2%)	2,220.1
1985	752.2 (22.8%)	1,669.9 (50.7%)	872.3 (26.5%)	3,294.4
1988	432.0 (10.6%)	2,214.4 (54.4%)	1,423.1 (35.0%)	4,069.5
1990	267.5 (7.1%)	1,806.2 (47.8%)	1,705.2 (45.1%)	3,778.9
1994	37.0 (0.9%)	1,799.9 (42.7%)	2,379.2 (56.4%)	4,216.1
1995	33.0 (0.7%)	1,815.0 (40.1%)	2,679.2 (59.2%)	4,527.2

Source: Central Bank of Bolivia 1993 and Villegas and Loza 1996.

The data presented above were published by the Central Bank of Bolivia. They differ from those used by the World Bank, which are shown in table 5.2. Both sources indicate the same trends: in 1980 the private bank debt amounted to almost half of the total debt; at present it is less than 1%. The bilateral debt increased sharply during the first years of the 1980s, but its relative weight then decreased (from about 50% in 1985 to 40% in 1995), while the multilateral debt increased its share from 26% in 1985 to almost 60% in 1995.

**Table 5.2 Evolution of the Bolivian external debt in selected years (in US\$ million and in percentages) according to World Debt Tables 1996.**

Year	Commercial	Bilateral	Multilateral	Total (public and publicly guaranteed)
1970	205	249	26	480
1980	1,072	663	447	2,182
1988	530	2,319	1,291	4,140
1990	325	1,773	1,593	3,690
1994	84	1,755	2,275	4,113

Source: World Bank 1996.

The total debt of US\$ 522 m in 1970 increased by 325.3% during the decade 1970–80. Between 1985 and 1995 (i.e. since the start of the economic reforms), it increased by 37.4%. With the signing of an agreement with the IMF (1986) multilateral financing opened up again, while bilateral debt became the subject of negotiation with the Paris Club countries. The internal composition by creditor country of the bilateral debt changed considerably over time, as shown in table 5.3.

**Table 5.3 Development of the bilateral debt 1985–1995 (in US\$ million)**

Creditor country/year	1985	% total 1985	1990	% total 1990	1995	% total 1995
Argentina	595.0	35.6	0.0	0.0	0.0	0.0
United States	322.5	19.3	446.0	24.7	92.9	5.1
Brazil	259.8	15.6	164.3	9.1	21.9	1.2
Germany	84.0	5.0	255.1	14.2	449.0	24.7
Spain	0.0	0.0	n.a	–	99.4	5.5
Belgium	61.5	3.7	153.4	8.5	165.3	9.1
Netherlands	28.6	1.7	62.2	3.4	29.0	1.6
Japan	133.5	8.0	363.5	20.1	597.9	32.9
Others	185.0	11.1	361.6	20.0	360.1	19.8
Total	1,669.9	100.0	1,806.1	100.0	1,815.5	100.0

Source: Based on Central Bank of Bolivia 1993 and Villegas and Loza 1996.

In 1985, the principal bilateral debt outstanding was owed to Argentina, the United States and Brazil. A decade later, the debt to these countries had become insignificant, with Japan, Germany and Belgium now the principal lenders. The nominal growth in bilateral debt between 1985 and 1990 was partly due to the depreciation of the US dollar against other hard currencies. For example, the debt owed to the Netherlands remained largely unaltered in terms of dollars: from US\$ 28.6 million in 1985 to US\$ 29.0 million in 1995, notwithstanding the debt reductions resulting from the agreements reached within the context of the Paris Club (see 5.2.2).



The evolution of the multilateral debt is presented in table 5.4.

**Table 5.4 Composition and development of the multilateral debt 1985–1995 by creditor (US\$ million)**

Creditor	1985	1985	1995	1995	1985–1995
	US\$ million	% of total	US\$ million	% of total	% change
IDB	469.5	53.8	1,444.6	53.9	207.7
IDA	94.4	10.8	767.0	28.6	712.5
IBRD	207.3	23.7	98.2	3.7	–52.6
CAF	31.3	3.6	257.6	9.6	727.3
FONPLATA	3.6	0.4	56.0	2.1	1,413.5
IFAD	4.9	0.6	34.7	1.3	608.28
Others	60.3	6.9	21.1	0.9	–65.0
Total	872.3	100.0	2,679.2	100.0	207.2

Source: Based on Delgado 1994 and Villegas and Loza 1996.

Bolivia's principal creditor in the multilateral debt portfolio is the IDB. The disbursements received from the IDB up to 1995 (US\$ 1,444.6) represented 32% of the total debt stock; second place is occupied by the IDA (17%), followed by the CAF (5.7% of total debt).

The weight and importance of the different types of borrowing over time is better reflected by the difference between disbursements and debt service, as shown in table 5.5.

**Table 5.5 Disbursements and debt service by lending category, in selected years, 1985–1995 (in current US\$ million)**

Creditor	1985	1990	1993	1994	1995
Private bank disbursements	3.4	0.0	4.1	0.0	0.0
Private bank debt service	15.4	0.8	6.8	8.9	4.2
Bilateral disbursements	33.1	94.4	88.0	61.9	34.7
Bilateral debt service	115.9	24.8	38.4	57.9	63.0
Multilateral disbursements	72.2	240.8	229.1	302.6	382.3
Multilateral debt service	116.8	193.4	194.9	209.3	229.2
Total disbursements	108.7	335.2	319.2	364.5	417.1
Total debt service	248.1	228.3	240.1	275.9	297.0
Net flow on credits	–139.4	106.9	79.1	88.6	120.1

Source: Central Bank of Bolivia 1996 in: Villegas and Loza 1996.

The total debt contracted from multilateral financiers is considerable higher: by June 1996, the total amount contracted with the IDB was US\$ 2,431.2 million and with the World Bank (IBRD and IDA) US\$ 1,442.8 million.

The changes observed in the composition of Bolivia's official external debt are characteristic to many countries (Mistry 1994): the debt portfolio shows a sharp reduction in the private bank debt (thanks to buy-backs and conversions), a stabilization or reduction of the bilateral debt (thanks to restructuring and forgiveness), and a simultaneous increase in the multilateral debt, due to new loans contracted to finance economic and social reform programmes (see table 5.1). The international financing institutions play the role of 'lender of last resort'. In many cases, such as Bolivia, this increase in the multilateral debt offsets the reduction of the commercial and bilateral debts (although the debt service is less).

In 1986, the World Bank classified Bolivia as one of the twenty 'severely indebted countries'. In 1996 the country was classified a 'severely indebted middle income country—SIMIC', meaning that its GNP falls within the range of US\$ 726 and US\$ 8,955 per capita and the present value of debt service to exports of goods and services (PV/XGS) exceeds 220% (see Annexe 3).

#### *The external debt and the financial flow*

New credits will only contribute to economic growth if they are an additional financial resource, used to fund additional investments and not to compensate other negative financial flows. For economic growth it is essential to have a positive net financial flow, which might be obtained by, for example, a positive trade balance, external (private sector) capital flow (investments by foreign enterprises and transfers), or international donations or loans.

In Bolivia, since expenditure on imports exceeds income derived from exports, there is usually a negative flow on the trade balance. At the same time, private sector foreign capital investments have been modest. The privatization process (of certain state enterprises at regional level) has not generated significant financial surpluses, nor has the capitalization (of large-scale public companies) generated a free capital flow, since its revenues are tied to the reform of the pension funds (see ch.2). In Bolivia, a net positive flow depends largely on remittances from abroad, on international donations, and credits. Indebtedness is therefore almost a requisite to enable the financing of necessary investments and is only negative in the event that it exceeds the country's capacity to pay off the debt. Transfers from abroad are important too, but part of this flow evades formal control and registration (narco-dollars).

Singling out the credit portfolio, disbursements from (new) loans usually exceed service obligations, in order to maintain a net positive flow on credits. After four years of negative flows during the economic crisis, the flow recovered from 1986 onwards. The capital flow

on official credits in selected years can be observed in table 5.5. In 1995, net transfers on bilateral credits were negative, net transfers on private bank loans had become negligible, while net transfers from multilateral sources were largely positive (US\$ 153 million in 1995).

## **5.2 International activities aimed at relieving the debt burden**

In 1982, Bolivia went into arrears on its debt servicing and in 1984 it unilaterally declared itself unable to comply with the servicing of its external debt. The moratorium was declared only on the commercial debt and part of the bilateral debt. Bolivia continued to meet fully all of its multilateral (and most of its bilateral) debt-service obligations.

Debt has both liquidity and solvency aspects. Liquidity problems occur when the current or future debt service requires too much of the liquidities in circulation within the national economy. Solvency problems occur when countries, even if they are experiencing a reasonable economic growth, do not present a sustainable debt profile. In that case, so-called 'debt overhang' hinders the economic growth, since debt service obligations prevent the necessary public expenditures on imports and investments. In 1984, Bolivia faced both a liquidity and a solvency problem, of which the former was the most severe and demanding immediate action by the Bolivian government.

### ***5.2.1 The international external debt crisis in 1982 and relief alternatives***

When international interest rates rose between 1979 and 1981, servicing of the commercial debt became complicated for many countries, but the real 'debt crisis' commenced in August 1982, when the Mexican government notified the United States of America its inability to meet its debt-servicing obligations and a number of other countries, including Bolivia, followed suit.

The economic policies of most countries faced with debt problems at the time shared a number of common characteristics: expansive monetary policies, price fixation of consumer products, state-determined interest and exchange rates, and direct public intervention in trade relations. The seriousness of the crisis forced governments, international institutions, banks and others (the crisis was a problem for the international banking system as well as for the debtor countries) to look for feasible solutions. International action to overcome the crisis had a dual purpose: to avoid chaos in the financial world, and to provide relief and assistance for the debtors. In the meantime, a 'secondary' market for debtor's obligations to commercial banks had developed, where debt papers reduced in



value could be exchanged (the discount varied from one country to another) against local currency (Van Loon and Rühl 1988:1054).

At international level, negotiations took place between 1983 and 1985 on a restructuring of commercial and bilateral debts, normally with the backing of the IMF. At that time the problem was considered to be one of liquidity and not of solvency, so solutions were sought in the capitalization of interest, restructuring over time and the granting of additional loans. From 1986 on, the solution to the solvency problem was expected to come from reactivation of the economies of the debtor countries. This long-term remedy called simultaneously for a reduction of the debt burden and for economic adjustment aimed at economic growth.

With the purpose of presenting a concerted and homogeneous policy towards the debtor countries, creditors coordinated their positions and alternatives for solutions within the Committee of Banks (later the London Club) for the private bank debt, and the Paris Club for the commercial part of the bilateral debt. There were various initiatives to organize the debtor countries in a similar way. Bolivia never showed any interest in these initiatives, the main reason being that Bolivia had—with exception of its commercial debt obligation—a very good payment record on bilateral and multilateral debt. It expected preferential treatment and deliberately opted for direct negotiation.

In the case of the *multilateral* debt the first relief openings are a rather recent phenomenon. Up to 1990 restructuring and rescheduling of multilateral obligations were 'out of the question' in order to protect the fundamental principles of the Bretton Woods institutions, in particular their 'preferred creditor' status (the triple A). It is this status which allows the multilateral financing institutions to obtain capital on the financial market at low costs. Multilateral debt forgiveness would lead to higher costs on capital and fewer opportunities to channel these funds to less creditworthy countries. This would imply that the international financing institutions would lose some of their functions (lenders of last resort, lenders of concessionary funds). Instead of direct debt forgiveness, other mechanisms to relieve the multilateral debt have been developed. In 1990 the Fifth Dimension was set up (see Annexe 3), as well as the IMF rights accumulation programme. In 1996, the press (*Financieel Dagblad*, June 11th, 1996) mentioned an unofficial proposal by the World Bank to set up a Multilateral Debt Fund. Bolivia would be one of the first countries to be considered by the Fund. The IMF-World Bank autumn 1996 meeting focused on the overall debt situation of severely indebted countries and new debt servicing and lending openings were announced for twenty Highly Indebted Poor Countries (HIPC) with sound macroeconomic adjustment programmes. Bolivia was qualified as one of these HIPCs and received as second country after Uganda preferential treatment (1997).

Donor support groups which assume (part of) the multilateral debt-service obligations have been set up, also in the case of Bolivia.

In order to tackle the debt problems, many measures have been applied over the last decade, including the following:

*Commercial debt:*

- the suspension of new loans by the private banks;
- the temporary suspension by the debtor countries of debt service to the banks;
- the granting of additional commercial loans, enabling the debtor country to meet service obligations on previous loans;
- the buy-back of commercial debt titles (and the provision of donor funds for that purpose);
- debt conversion ('debt-for-equity swaps').

*Bilateral debt:*

- the restructuring and rescheduling of the stock of capital and debt service of bilateral debt (the commercial part of the bilateral debt);
- the (partial or total) forgiveness of the stock of bilateral debt (in first instance the ODA part, later also the commercial part);
- debt conversion ('swaps').

*Multilateral debt:*

- the lending of additional concessionary credits by the international financing institutions in order to achieve a net positive multilateral financial flow;
- the Fifth Dimension Programme which provides additional concessionary IDA loans with the aim of servicing up to 95% of the interest on non-concessionary old (IBRD) loans;
- the donation of funds by (bilateral) donors in order to pay for the multilateral debt service, in particular for countries with prevailing long-standing arrears, for which support groups have been created;
- for countries with considerable arrears in servicing their multilateral debt, the IMF may arrange for a rights accumulation programme.

Debt relief options were developed to such extent that ‘the disaster didn’t happen’ (The Economist 12 september 1992) and the debt crisis was largely overcome.

**5.2.2 International initiatives to relieve the Bolivian debt burden**

Various international initiatives have been taken aimed at relieving the Bolivian external debt. After Bolivia’s unilateral moratorium, the governments of the Group of Seven, some international banks and the IMF coordinated efforts to identify solutions. International initiatives were developed, in some cases especially for Bolivia, but usually it was considered whether Bolivia qualified for initiatives applied worldwide. In October 1985, the Secretary General of the United Nations took the initiative to rally international support for the economic adjustment programme of the Bolivian government. This proposal coincided with the implementation of the Baker Plan (see Annexe 3), aimed at a structural adjustment with growth.

From 1987 on a ‘list of market options’ was developed which included ways of reducing the debt by mechanisms like the transformation of debt into bonds, conversion and buy-back. These mechanisms received IMF backing. At the same time, the creditor countries, members of the Paris Club, agreed to consider the case of Bolivia in the Club, and to aim at a restructuring of its bilateral debt after Bolivia reached agreement with the IMF.

The Brady Plan did not have much impact (since it was mainly aimed at the larger debtor countries), but President Bush’s Initiative for the Americas (1990) (see Annexe 3) made it possible to eliminate a significant part of the concessional bilateral debt owed to the United States.

*Commercial debt*

Faced with the increase in interest rates on its private bank debts, Bolivia attempted a rapprochement with the international banking world in 1981 in order to restructure its debts.<sup>2</sup> Internationally, a 'secondary' market had developed in titles (promissory notes), in which the banks sold the titles to investors for a reduced price, who exchanged them with the State for local currency at a discount. The investor's advantage lies in being able to obtain 'cheap' national currency to meet local payment obligations (for example, wage payments) without having to use foreign exchange for this purpose. The advantage for the bank is the sale of a dubious debt portfolio, while the advantage for the State is that it 'buys back' its own debts, removing them from the debt portfolio and hence alleviating its servicing obligations.

A fundamental aspect of this secondary market was the discount. In fact, this discount was an indicator of the confidence of the banks that the promissory notes were recoverable, and in the country's economic performance. If confidence was very low, the discount would have been very high. The following table presents discount rates in a number of countries, comparing 1989 with 1991:

**Table 5.6 Prices of the commercial debt titles on the secondary market of some Latin American countries (as a percentage of the nominal value)**

Country	1989	1991
Bolivia	11.00	16.00
Argentina	13.00	33.00
Costa Rica	17.00	51.00
Peru	6.00	11.00
Nicaragua	1.00	—

Source: IMF.

For Bolivia the discount amounted to no less than 89% in 1989, one of the highest rates at the time. The idea arose of buying back promissory notes from the private banks with donor funds at no cost to the debtor country. Obviously, this was only possible in the case of smaller debtor countries. The Netherlands government supported these experiments (van Kesteren 1994:245) and financed the purchase of debt titles on behalf of Zambia, Bolivia (promissory notes which were subsequently donated to the governments), and Costa Rica. In 1987, Bolivia was the first country in the world to buy back part of its commercial debt making use of donor funds only. Other donors did not display much interest in this mechanism and most European countries preferred to allocate their donor funds to the 'social dimension of adjustment'.

<sup>2</sup> Refinancing Agreement among La República de Bolivia and the Original Obligiers and Bank of America National Trust and Savings Association, April 1981.

*Bilateral debt*

The Bolivian bilateral debt was not negotiated until 1985. A large part of these debts had their origins in loans to public enterprises. In 1985, by Supreme Decree 21060, the Treasury subrogated the foreign obligations of some state companies in order to concentrate the public external debt, with a view to facilitating the negotiation process.

*a. Paris Club*

In order to determine a joint policy vis-a-vis particular debtor countries, creditor countries (most OECD industrialized countries) meet in the Paris Club (see Annexe 3). To be considered for joint treatment by the members of the Paris Club, a country should have an agreement with the IMF on macroeconomic policy (in other words, should have started some kind of structural adjustment of its economy). Bolivia started its reform programme in 1985, which paved the way for consideration by the Club. Six meetings with the Paris Club were held between 1986 and 1995, in which the commercial part of the bilateral debt (due until the cut-off date December 31st, 1985) owed to the member countries was considered. For Bolivia access to the Paris Club also implied contacts for bilateral negotiations aimed at reduction of the ODA part of the bilateral debt. So in practice, the Paris Club dealt with both the commercial part and (part of) the concessional bilateral debt.

In October 1988, during one of its policy meetings, the Paris Club departed from the usual restructuring procedure and approved the so-called Toronto Terms (see Annexe 3), which for the first time included forgiveness of part of the debt (up to one-third of the eligible maturities) for severely indebted low income countries. In fact, this was a recognition that the debt problem was not only one of liquidity, but also of solvency. In 1991 this was followed the London Terms (or Enhanced Toronto Terms; up to half of the eligible maturities). The 1994 Naples Terms included an option for maximum forgiveness of up to two thirds of the stock of debt. In 1996 the Club of Paris agreed with the IMF and World Bank on even higher percentages (up to 80%) of debt forgiveness for HIPC's.

In March 1995 (Paris Club V) Bolivia qualified to make use of the Naples Terms. A definitive 'exit agreement' was reached during the Paris Club VI meeting (December 1995). The agreement entailed debt relief of US\$ 576 million, of which 48% was a reduction of a concessional part of the bilateral debt (ODA), 26% a reduction of maturities in terms of net present value and another 26% in direct debt stock reduction. The results of the negotiations in terms of bilateral debt relief are summarized in table 5.7.

Bolivia has always been among the first countries to benefit from new options. It was the first non African country to benefit from the Toronto Terms; the third country to benefit from the London Terms, and the second country (after Uganda) to benefit from the Naples



**Table 5.7 Debt reduction and rescheduled debt as agreed upon with the Club of Paris members (US\$ millions)**

	Paris I	Paris II	Paris III	Paris IV	Paris V	Paris VI
date	June 1986	November 1988	March 1990	January 1992	March 1995	December 1995
terms of negotiation			Toronto Terms	London Terms	Naples Terms	Naples Terms; Exit agreement
total amount consolidated	510	261	321	273	471	977
% forgiveness	0	0	33	50	67	67
reduction in stock of debt	0	0	76	121	276	576
rescheduled debt	510	261	127	49	68	0

Source: Based on Central Bank of Bolivia and Villegas and Loza 1996:9.

Terms. The exit agreement came after ten years of Paris Club meetings, which is a very short period compared to other countries. The reason for this preferential treatment is that Bolivia has always complied with its payment obligations and implemented its economic programme according to the recommendations of the IMF.

Initially the Paris Club represented exclusively the interests of the creditors, but gradually more attention was paid to the aid aspect. Since debt forgiveness could be registered as an ODA expenditure (whereas reschedulings could not), creditor countries started to show greater willingness to opt for cancelling debt, as a form of ODA aid without a cash outlay.

#### *b. negotiations outside the Paris Club*

In addition to the agreements reached with the Paris Club, Bolivia made an active effort (in particular in 1989) to negotiate reductions in its bilateral debt. Direct negotiations with Argentina, Brazil, the United States, the (former) Soviet Union, and Romania resulted in reductions of approximately US\$ 1,300 million (Delgadillo 1994).

#### *Multilateral debt*

The multilateral debt is composed of both concessionary loans (long-term, low rates of interest; e.g. IDA and IDB credits), and 'less concessionary' loans (e.g. from the IBRD and CAF). The total multilateral debt contracted has increased significantly during the last decade, particularly since the start of the structural adjustment programme, and amounts to approximately US\$ 5,000 million. Thanks to the increase in the share of concessionality in multilateral credits, the multilateral debt service has decreased in relative terms.

During the early nineties, the principal instrument for multilateral debt relief has been the Fifth Dimension programme of the World Bank, which allowed an increase in loans for structural adjustment on the basis of concessionary conditions. Bilateral donor sources can co-finance through grants which underwrite the rest of the servicing and interest payments on these loans. In the case of Bolivia, Sweden made donations to a special Trust Fund, while USAID maintains a special endowment account for this purpose. In July 1995, the Netherlands government offered Dfl. 27.3 m (US\$ 16.9 million) to pay part of the debt service to the IBRD (Dfl. 17.9 m) and IDB (Dfl. 9.4 m). In October 1996 an agreement was reached on special IMF ESAF drawings to HIPCs, the setting up of a World Bank Trust Fund and measures contributing to multilateral debt relief to the poorest countries.

### ***5.2.3 Bolivian policy on foreign debt***

Up to 1985 Bolivia lacked a well-defined policy on how to deal with its debt situation. In fact, between 1979 and 1982 the country lacked the necessary political stability (11 governments) to define any specific strategy or policy. After its declaration of the temporary unilateral moratorium, the government ordered the Central Bank of Bolivia to propose a solution for the crisis, but it was only in 1985 that a special committee was established to manage and administer the debt. The chairman of the committee had the status of a minister and had a permanent technical secretariat at his disposal.

In 1986, for the first time, a coherent policy on external debt was formulated (similar to the policies developed by most debtor countries), comprising:

- in the short-term, normalization of relations with the creditors (multilateral organizations, governments and banks), while improving ties with sympathetic governments and financial institutions in order to contract new loans in the medium and long-term. Simultaneously the resumption of technical cooperation was sought;
- achievement of a positive net financial flow to the country, i.e. to secure new disbursements in excess of the debt-service expenditures;
- modification or exchange of loans with unfavourable conditions (duration or interest rates) for loans on concessionary soft terms.

The following instruments were employed to realize these policies:

- elimination of the debt to the international private banks, whilst avoiding the use of the country's own financial resources for that purpose;
- a request to the Paris Club members for bilateral debt restructuring, at the same time as a proposal for the forgiveness of bilateral aid debt. The option of debt conversions (debt swaps) was opened;

- the negotiation of bilateral debts with the non-member states of the Paris Club; in the first instance, the principal creditors (Argentina and Brazil).

Additional measures were taken in 1987, including prohibiting the public sector to contract additional commercial credits and strengthening the management capacity of the public bodies responsible for the external debt. In 1990 an External Finance Committee was established, which defined the strategies for contracting new resources, negotiations and renegotiations of the external debt.<sup>3</sup> On the basis of this policy, Bolivia initiated negotiations, in the first instance with the international banks in order to settle its commercial debt, and later on with the bilateral creditors. Since 1994 there have been ongoing activities regarding the multilateral debt.

Although Bolivia has implemented a policy aimed at reducing the existing external debt and has improved this policy over the course of time, it has not developed a specific policy on indebtedness, i.e. it has not established indicators to determine an acceptable level of indebtedness, according to its own criteria. In practice, Bolivia has used the criteria generally applied by the IMF and World Bank.

### 5.3 Dutch contributions to relieve the Bolivian debt burden

#### 5.3.1 Introduction

Bolivia's bilateral debt to the Netherlands has its origin in two publicly guaranteed export transactions, totalling Dfl. 92 million, for the purchase of six F-27 Fokker airplanes for the Bolivian Air Force<sup>4</sup> in 1979. Apart from these transactions, no other bilateral debts originated in public guarantees for export activities, since the facilities for this purpose have been extremely limited.<sup>5</sup> Since Bolivia never received development loans from the Netherlands there has never been any concessional bilateral debt (development aid debt) to the Netherlands. In the absence of these development loans, DGIS could not directly forgive any bilateral debt.

The Netherlands has made the following contributions to relieve the Bolivian debt situation (with disbursements before 31-12-1994, see chapter 1):

<sup>3</sup> The Committee was chaired by the Minister for Planning, and included the Minister of Finance, the Minister for Foreign Affairs and the Chairman of the Central Bank of Bolivia.

<sup>4</sup> The Fokker airplanes, although equipped for military purposes, were operational on civil lines between remote areas which were not covered by regular airlines. This transaction should not be confused with the donation of a Fokker aircraft under the balance of payments support programme.

<sup>5</sup> Currently, the Netherlands Credit Insurance Company (NCM) does not issue any guarantee for loans on export transactions with Bolivia for periods longer than three months.

- the 1986/87 balance of payments support programme: Dfl. 4.5 million were provided through the Nederlandsche Middenstands Bank (NMB) and Dfl. 4.8 million through the IMF for the buy-back of commercial debt titles;
- the 1988/89 balance of payments support programme: Dfl. 10 million were provided through the IMF for the purchase of commercial debt titles;
- the 1989/90 balance of payments support programme: Dfl. 20 million (in two tranches) were used for the purchase of commercial debt titles;
- in 1990 part of the bilateral debt reduction resulting from the Paris Club III agreement was reimbursed with funds from the regular budget for the Andes Region to the Ministry of Finance: Dfl. 8.5 million;
- in 1992, the contribution to the buy-back of commercial debt titles through the IDA Debt Reduction Facility (see Annexe 3) for Dfl. 5 million.

As indicated in 5.2.2, in addition to contributions made with development cooperation funds, the Netherlands contributed to the relief of the Bolivian debt burden by its agreements in the context of the Paris Club. The restructuring of the debt servicing is considered as a ‘non-ODA’ type of contribution, while reductions (both on the principal and on the interest) are recorded as ‘ODA’. The arrangements between the Ministry of Finance and the Ministry of Foreign Affairs regarding the financial responsibility for these reductions have varied over the years. Currently, debt relief granted within the framework of the Paris Club agreements is recorded as ODA and paid from the budget of the Ministry of Foreign Affairs, although negotiations are carried out by the Ministry of Finance.

The contribution from Dutch development cooperation funds has been approximately Dfl. 52.8 million (US\$ 26.5 million) (plus Dfl. 27.4 million in 1995). Table 5.8 presents the debt relief contributions by the Netherlands during the period evaluated (1986–94), as well as 1995 (not evaluated).

### ***5.3.2 The Netherlands policy on supporting indebted countries***

Debt relief is one of the instruments of the balance of payments support programme (see section 3.2). The overall policy on balance of payments support was laid down in a Memorandum to Parliament (Ministers for Finance and Development Cooperation 1987:233–239). Although this Memorandum mentioned the debt-service ratio as one of the principal indicators in determining whether a country qualifies for balance of payments support or not, it did not indicate explicitly the option of using donor funds for debt relief. In 1986, DGIS looked for support in the proposals formulated in the Baker Plan and later the Brady Plan, but most countries concerned were outside the focus of the Dutch cooperation and the sums involved were too high. However, DGIS considered the buy-back of commercial debt titles a useful instrument.

**Table 5.8 Debt relief contributions by the Netherlands with development cooperation funds during the 1986–95 period (in Dfl. million)**

Year	Activity	Commercial debt	Bilateral debt service forgiven	Contributions to multilateral debt service
1987	direct buy-back by NMB	4.5		
	deposit IMF Trust Fund	4.8		
1988	deposit IMF Trust Fund	10.0		
1989	deposit IMF Trust Fund	20.0		
1990	Paris Club III		8.5	
1992	IDA Debt Reduction Facility	5.0		
total 1986–1994		44.3	8.5	
1995				27.4

Source: Based on data from the Bolivian Central Bank and DGIS files.

Note: The debt titles purchased by the NMB represented a nominal value of US\$ 15.86 million. These titles were donated to the Bolivian government.

Policy papers and documents on debt alleviation were formulated while the contributions to commercial debt relief in Bolivia were ongoing or after they had been completed. Current policies focus mainly on multilateral debt relief. The white paper ‘A World of Difference’ (Ministry of Foreign Affairs 1991:123–138) contains a full description of the external debt question and emphasizes that cooperation funds could function as a catalyst, both in the purchase of commercial debt titles and in mechanisms like the Fifth Dimension. The documents ‘Report on Debt Strategy’ (Ministers for Finance and Development Cooperation 1992) and ‘Note on Multilateral Debt’ (1995) outline the Netherlands views regarding the multilateral debt position of severely indebted countries and possible strategies to relieve this type of debt. In general, it is the Netherlands view that multilateral and bilateral debt problems should not be dealt with separately and that establishing sustainable debt profiles calls for concerted measures by all creditors.

In 1986, the eligibility criteria for debt relief were in principle similar to those for import support. Since 1991, the decision whether to support the external debt relief activities of a particular country is based on the revision of the list of countries in special categories, such as the ‘severely indebted low income countries’, ‘severely indebted middle income countries’, and countries which have concessionary debts with the Netherlands. Eligibility for a debt relief contribution depends on the following criteria:

- the country must be severely indebted;
- debt-service obligations must cause liquidity problems;
- economic growth is obstructed by debt overhang,
- the country must have a track record of sound economic policies, implementing a

macroeconomic policy aimed at strengthening productive capacity and facilitating exports.

### ***5.3.3 Support to relieve commercial debt***

In October 1985 the UNDP in La Paz requested Dutch support for the new structural adjustment programme which had been initiated in Bolivia. In the first instance DGIS rejected this request, but indicated that Bolivia qualified for balance of payments support and that the funds could be used for other purposes besides imports. In September 1986 the Netherlands embassy in Lima suggested using the balance of payments support programme to purchase commercial debt titles on the secondary market. The Minister for Development Cooperation replied (correspondence October 29th, 1986) that Bolivia was not eligible for cancellation of debt and that the forgiveness of commercial debt was rather unusual. In May 1987 the President of the BCB stressed the leading and innovative role played by the Netherlands (in particular the NMB bank) regarding the commercial debt titles market, and suggested using funds destined for balance of payments support to buy back commercial debt titles on the secondary market. The Dutch authorities did not (and could not) know that—in the meantime—the President of the Republic of Bolivia had set up a confidential task force in Washington. On the basis of the work of this special team, the majority of small and medium banks were already convinced of the importance of a buy-back operation, although a few larger banks still kept their distance. As a part of its strategy, Bolivia only wanted to use donor funds for repurchase (zero cost option). These grants had to be deposited in an IMF endowment account, but this account did not have sufficient funds to start the operation. The operations were to be implemented by the Merrill Lynch company. Notwithstanding Bolivia's request to DGIS to deposit the funds on the IMF account, DGIS preferred to act directly. The reasons for doing so were that no other countries showed interest in depositing funds in the IMF Trust Fund, that the NMB bank was uniquely experienced in this field and that the original idea had arisen from the contact between the Central Bank of Bolivia and the Netherlands. DGIS charged the NMB bank to purchase titles and made Dfl. 9.3 m available from the 1987 balance of payments support programme.

The NMB purchased from five foreign banks debt titles against 10.5–11% of the nominal value plus 1% of the current value (on average 11cts per US\$ of value) for a total of Dfl. 4.45 million. After this first bid, the NMB was requested by the Bolivian authorities to stop purchasing, because it jeopardized the strategy outlined for a major buy-back operation by Merrill Lynch. DGIS subsequently (December 1987) instructed the Netherlands Investment Bank for Developing Countries to deposit the remaining funds (Dfl. 4.84 million) in the account of the IMF Trust Fund. The NMB was instructed to donate the debt

titles to the Bolivian government. To Bolivia, this donation of titles was 'sui generis'. It continues to be recorded in its accounts as a donation of US\$ 15.86 million, representing the nominal value of the titles purchased by the NMB bank.

The Dutch deposit to the IMF Trust Fund was the first donor contribution. This example was used by the Bolivian authorities to convince other donors (Switzerland, Germany, Sweden) to participate in the Fund as well. In general, there was little interest among donor countries and Bolivia did not manage to accumulate sufficient funds to initiate a large-scale buy-back. The intention was to repurchase the major part of the commercial debt in one single transaction. Bolivia requested the Netherlands for an additional donation as a component of the 1988 balance of payments support programme, which was approved initially for Dfl. 10 million (US\$ 5.27 million) and later Dfl. 20.0 million (US\$ 10.6 million). With these deposits, the funds contributed by all donors to the IMF Trust Fund amounted to US\$ 35.9 m. Merrill Lynch executed the buy-back with these funds (1988), offering 11 cts per US\$ of value. Almost one year after the purchase by the NMB, the price had not changed, indicating that the NMB had adequately 'sounded out' the market. Of the total debt owing to private banks, which amounted to US\$ 682.6 million, US\$ 243.1 million was repurchased directly. Together with a withdrawal of US\$ 81.2 million through investment bonds and the Netherlands donation of US\$ 15.9 million, the total reduction amounted to US\$ 340.2 million, equivalent to 49.8% of the commercial debt (Ministry of Finance 1991).

In 1989, Bolivia intended to reduce the remaining US\$ 342.4 million. According to what had been agreed with the Committee of Banks, Bolivia would continue to withdraw its debt by means of investment bonds and repurchasing, making use of the IDA Debt Reduction Facility. The World Bank would participate with US\$ 10 million, Sweden with US\$ 1.5 million, Switzerland with US\$ 2.5 million and the Netherlands with US\$ 5.0 million. A sum of US\$ 30 million would be required for the total buy-back, but the total amount pledged was only US\$ 19 million, enabling debt valued at US\$ 191 million to be removed from the market (IDA 1992). In 1992 the remaining debts were almost all bought back, leaving a commercial debt of only about US\$ 33 million.

A few observations can be made:

- in the Bolivian case, the idea of repurchasing titles on the secondary market with donor funds did not come from the international financing institutions, but from the Netherlands. However, the process took its time, and alternative initiatives were put forward by the Bolivian government at the same time (the IMF Trust Fund);
- the first purchase of commercial debt titles on the secondary market was not without risk: direct purchase could have created expectations on the market, with consequences for prices. However, the result was highly positive, because in practice it enabled market

- possibilities, which were virtually unknown before ('a thin market') to be sounded out;
- various misunderstandings occurred during the process, due to the long communication channel through the Netherlands embassy in Lima, where no expertise on debt relief was available.

### ***5.3.4 Support to relieve the bilateral debt***

Bolivia's bilateral debt to the Netherlands has its origin in 1979, in two export transactions (six F-27 Fokker airplanes to the Bolivian Air Force) covered a public guarantee in the form of export insurance from the NCM. The debt totalled Dfl. 92 million and was dealt with in the Paris Club. On 31st December 1985, maturities due up to Dfl. 87 million could be considered within the conditions set by the Club of Paris (pre-cut off date obligations)<sup>6</sup> and Dfl. 5 million could not.

After two rescheduling exercises, at Paris Club III (1990), Bolivia requested the appliance of the Toronto Terms. The Netherlands chose option B of the 'Toronto Menu' (see Annex 3). Since the agreements reached in the Paris Club had to be elaborated into specific treaties with each member state, the Bolivian negotiation team succeeded in persuading the Netherlands to change from option B to option A. The Netherlands authorized a cancellation of 33% of the maturities due, which amounted to Dfl. 12.9 million, of which Dfl. 8.5 million was reimbursed by the Ministry of Foreign Affairs to the Ministry of Finance.

During Paris Club IV the debt service obligations were reduced by Dfl. 9.9 million and at Paris Club V by Dfl. 10.9 million. After the exit agreement between Bolivia and the members of the Paris Club the country's outstanding debt to the Netherlands amounted to Dfl. 46.7 million. In nominal Dutch guilder terms, the Netherlands relieved Bolivia's bilateral debt by approximately Dfl. 45 million. However, changes in the exchange rate between the US dollar and the guilder, as well as the capitalization of interest contra-balanced the impact in terms of US dollars (from US\$ 28.5 million in 1985 to US\$ 29.0 million in 1995). The real effect of the agreements could best be expressed in terms of net present value. However, available data did not allow this calculation to be carried out.

### ***5.3.5 Support to relieve multilateral debt***

No support to relieve multilateral debt was funded during the period evaluated (up to the end of 1994). The Netherlands started to focus on multilateral debt relief to Bolivia from

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<sup>6</sup> These figures do not coincide exactly with those used by the Central Bank of Bolivia, which registered a balance at the cut-off date (Dec. 31st, 1985) of Dfl. 80,973,214 (Delgadillo 1994:59).



1985 onwards, also because no other options were left (all commercial debt had been eliminated and an exit agreement had been reached with the Paris Club). In 1994, Sweden gave the first bilateral contribution to Bolivia's multilateral debt service obligations, through the World Bank's Fifth Dimension facility. In July 1995, the Netherlands allocated Dfl. 17.9 million to pay for multilateral debt service to the IBRD and Dfl. 9.4 million to the IDB through a multilateral debt fund.

#### 5.4 The policy relevance of debt relief

##### *Relevance for Bolivian development policy*

The relevance of external debt relief for Bolivian development policy is closely related to the country's macroeconomic policy, in particular to the structural adjustment programme. During the first period of adjustment, when the emphasis was given to stabilization measures, the public debt situation played a fundamental role in these policies. These stabilization measures included the following:

- a virtual ban on the provision of credit by the Central Bank of Bolivia;
- a ban on the contracting of external loans by public enterprises;
- priority to the relief of the external debt servicing through bilateral negotiations and the repurchase of the commercial debt;
- a drastic reduction in public expenditure to prevent levels of expenditure from outstripping income (hence avoiding the contracting of loans for current expenditures).

Once economic stability had been consolidated, Bolivia focused on poverty alleviation by means of the 1991 Social Strategy. A substantial share of the investments made in the social sectors had to be financed with external resources. Although initially the capitalization and privatization of public enterprises were supposed to reduce the demand for external credits, until 1996 public enterprises still required 33% of all external loans (Villegas and Loza 1996:16). The 1995 decentralization and public participation efforts were also largely financed by external resources.

The Dutch contributions to external debt relief have been *relevant* for Bolivia in the following way:

- the support for the buy-back of the commercial debt (as first donor country) helped to avoid an international embargo by the banks, and enabled Bolivia to rejoin the international financial market;
- Bolivia could spend a larger part of its foreign currency on the import of capital goods and raw materials. Disposing of hard currency for import is an instrument for controlling inflation;

- Dutch support paved the way for other donors and even contributed to opening up the use of new multilateral financing instruments, such as the IMF Trust Fund.
- debt relief allowed the contracting of new loans for the implementation of sectoral adjustment programmes.

#### *Relevance for Dutch policy on development cooperation*

The relevance to the overall objectives of the Netherlands development cooperation (poverty alleviation, the environment and the improvement of the position of women) cannot be studied to an equal extent. Programme aid instruments do not necessarily link up with gender and environmental aspects, while the impact on poverty alleviation is supposed to be implicit, since programme aid is not made available if the recipient country does not implement a macroeconomic policy that has been agreed upon with the international financing institutions. This policy is supposed to embrace aspects of poverty alleviation (currently more predominant than a decade ago).

The relevance of external debt relief for compliance with the *specific* priorities formulated by DGIS for the Andes Region and Bolivia (DGIS 1990 and 1992) is probably most salient in its support for democracy. Although any causal relation is hard to prove, it is worth mentioning that various information sources explicitly emphasized the relation between the leading role played by the Netherlands in debt relief and the support for democracy. When the first democratic government came to power after a period of political instability, its position was immediately undermined by the economic crisis. The hyperinflation of 1984 and 1985, the massive dismissal of miners, the decline in the terms of trade and the excessive debt burden were all a direct threat to democracy; moreover, the democracy was still new and the country had passed through decades of frequent changes of government. Some political parties were in favour of a suspension of servicing the external debt. In the light of these considerations, the external debt relief supported the continuance of the democratic system in Bolivia.

#### *Relevance for exerting influence on macroeconomic policy*

Dutch support for the structural adjustment programme, and in particular for the debt relief, offered in principle an opportunity to join the dialogue on the direction of macroeconomic policies. Although the Netherlands displayed interest in the structural adjustment process from the beginning, and despite MCTH's leadership in the group of 'like-minded' countries, the influence it exerted has been negligible. For a number of years, macroeconomic policy was the almost exclusive domain of the World Bank and the IMF.

## 5.5 Effectiveness of debt relief

The effectiveness of debt relief can best be measured by the development of the debt burden indicators and its impact on the balance of payments. Obviously, this does not allow the Dutch contributions to be separated from other debt relief efforts.

### 5.5.1 *The development of the indebtedness ratios*

The absolute magnitude of the external debt is hardly of importance, since it does not reflect the country's capacity to meet its payment obligations. Bolivia's debt servicing obligations remained high during the decade. The impact of external debt relief should be expressed by an improvement in a number of indicators (indebtedness ratios) which reflect the burden of debt servicing on the economy. These indicators may be expressed either in nominal or in present values. The most commonly used indicator is the ratio of (future) debt-service obligations to export earnings.

However, this indicator has its limitations: it does not take into consideration the transfers of financial resources in foreign exchange from concessionary credits and donor aid (which have an impact on a country's payment capacity) and does not show the relative weight of the debt service obligation on fiscal expenditures, which is important because most public external debt has to be serviced with fiscal revenues. In 1995, the central government was the principal debtor, with 67% of the total external debt, while public enterprises (and other public guarantees) owed 33% of total debt (Villegas and Loza 1996:16).

The development of the principal indebtedness ratios according to the Central Bank of Bolivia is presented in table 5.9.

There are no exact criteria for the interpretation of these indicators. Until 1993, the World Bank applied the term 'severely indebted country' when either the ratio of total outstanding debt to Gross National Product (GNP) was greater than 50% and/or the ratio of the debt service to the export earnings of goods and services was greater than 30%. A ratio of debt service to export earnings of less than 20% is believed to be a sustainable level.

In 1992, the World Bank introduced a new methodology for classifying countries according to their degree of indebtedness. Two ratios are used: the ratio of present value of total debt service to GNP and present value to exports (World Bank 1996:41–42). If either of these ratios exceeds a critical value (80 percent for present value of debt service to

**Table 5.9 Development of indebtedness ratios according to the Central Bank of Bolivia**

Year	TDS/XGS (%)	EDT/XGS (%)	TDS/capita (US\$)	EDT/GDP (%)
1985	33.1	440.1	594.4	51.3
1990	23.3	386.2	616.7	68.1
1991	21.2	394.5	580.3	59.8
1992	26.6	486.4	596.5	60.3
1993	24.3	423.0	583.4	70.3
1994	23.3	356.2	636.2	77.0
1995	23.8	363.1	643.1	75.5

Source: Based on data from the Central Bank of Bolivia and Delgado 1994.

TDS: Total Debt Service on long-term debt (data from the Central Bank of Bolivia include only long-term debt; data from World Bank include short-term credit and the use of IMF credit)

EDT: External Debt Total

XGS: Exports of Goods and Services

GDP: Gross Domestic Product

GNP and 220 percent for present value to exports), the country is classified as severely indebted (see Annexe 3). For Bolivia the averages over the 1992–94 period were 62 and 332 percent respectively, so Bolivia was classified as severely indebted according to the second indicator (World Bank 1996:48).

Annual data in nominal values (World Bank 1996:52) should be comparable to those used by the Central Bank of Bolivia but vary in practice, due to differences in the methodology used (Martin 1996), as indicated in table 5.10.

**Table 5.10 Development of indebtedness ratios according to the World Bank**

Year	TDS/XGS (%)	EDT/XGS (%)	EDT/GNP (%)
1985	33.5	875.0	144.1
1990	38.7	429.8	100.8
1991	33.0	419.8	85.9
1992	37.4	509.0	83.5
1993	38.5	465.7	81.5
1994	28.6	395.9	85.6
1995	26.8	383.0	79.5

Sources: Based on data IMF and World Bank 1996.

No single indicator can capture all aspects of the debt burden, so existing indicators should be interpreted cautiously. For example, the fact that Bolivia refinanced its non-concessional debt with loans on concessional terms cannot be observed in the debt-GNP indicator (Gajdesczka 1992:44,45). The indicators do not reflect neither that this refinancing contributed to an increased donor dependency, since most debt has become

multilateral and owed to a limited number of international financing institutions. In practice, the interpretation of the indicators is more of political than economic importance.

Since the most frequently used indicators have GDP (or GNP) and export earnings as denominator, it is important to analyse the performance of both over time. During the decade 1985 to 1994, the GDP showed an average annual growth rate of 3.5–4.5%, while the level of exports stagnated between 1990 and 1992. A growth can be observed since 1993, due to the increase in non-traditional exports (see table 5.11).

**Table 5.11 Value of exports and growth of the GDP**

	1987	1988	1989	1990	1991	1992	1993	1994	1995
% growth value of exports	4.7	6.7	40.1	12.1	-6.3	-13.6	15.5	13.8	7.3
% growth GDP	2.1	2.8	3.6	4.4	4.6	2.8	4.1	4.6	3.8

Source: Central Bank of Bolivia and Ministry of Finance.

With this modest growth in GDP, the improvements in the indebtedness ratios result not only from economic growth, but also from an alleviation in the debt service obligations.

The conclusions are that:

- during the decade 1985–95, the ratio of debt service to export earnings hardly improved according to the data of the BCB, and modestly according to the indicators used by the World Bank. The net effects of debt relief are largely balanced out by new obligations;
- the slightly increasing total debt as a ratio of Gross Domestic Product and per capita (BCB) seems to indicate that growth in the economy is being financed by—at least—a similar growth in foreign indebtedness.

### **5.5.2 The effects on the Bolivian economy**

Until 1996, the impact of debt reductions on the economy had never been studied in depth by either the Bolivian Ministry of Finance or the international financing institutions. The IMF and the World Bank used to deal with debt relief as only one element within a package of macroeconomic instruments and analyse the joint effect of these measures, focusing mainly on projections for the future development of the economy rather than analysing the past.

Theoretically, debt relief should have an impact on the balance of payments, in particular on the ‘capital account’ (amortizations) (see table 5.12), but the effects are largely balanced out by the obligations resulting from the contracting of new loans.

**Table 5.12 Summary of the capital account 1985–1995 (in US\$ m)**

Items/year	1985	1988	1990	1992	1994	1995
<b>Capital Account balance</b>	522.3	314.5	394.5	532.6	208	216
official transfers	59.8	123.9	153.4	223.9		
foreign investments	10.0	30.0	35.0	86.0	83	137
medium-term and long-term capital	24.8	164.6	76.8	202.8	125	79
disbursements	199.3	404.7	373.4	454.2	360	379
amortizations*	-174.4	-240.0	-296.6	-251.4	-235	-301
other flows	427.7	-4.0	129.3	19.9		
Exceptional financing*	..	146.2	75.8	132.0	134	202
Change in reserves***	-28.7	29.8	-98.9	-37.1	-123	-124

Source: World Bank 1994. Data 1994-95: IMF.

\* only paid amortizations

\*\* includes unpaid amortization, default and debt relief

\*\*\* the balance of payments is always zero; the difference is the change in reserves; a negative figure indicates an addition to the reserves.

Between 1986 and 1994, the Bolivian government achieved a reduction in the stock of debt of approximately US\$ 3,080 million (US\$ 2,410 million bilateral debt, and US\$ 670 million commercial debt) in nominal terms (Delgado 1994:46,47). The impact of this substantial reduction was offset by newly contracted loans.

In general, the following effects could be observed:

- the reduction of the debt-servicing obligations, mainly resulting from the more concessional conditions set by the multilateral credits, contributed to a positive net financial flow;
- the indebtedness indicators—notwithstanding the contracting of additional loans—did not deteriorate over time. On the contrary, some indicators have shown a slight improvement, giving Bolivia a more satisfactory debt profile than in the past;
- debt reduction provided relief to the TGN since it contributed (together with improved fiscal revenue generation) to a modest drop in the weight of the debt servicing on the fiscal expenditure (about 3%). The service obligations amounted to an average of 30% during the 1985–95 decade; debt relief prevented this percentage from increasing.

## 5.6 Efficiency of debt relief

Efficiency can be appraised in terms of timeliness, use of resources and capacity, procedures (especially donor coordination) and opportunity.

### *Time efficiency*

In terms of time-efficiency (timeliness and duration), the role of the Netherlands has been appropriate, since it took the lead in using bilateral donor funds to repurchase part of the commercial debt. It reacted at the right moment and was one of the first countries to show an interest in Bolivia's macroeconomic situation at the start of the structural adjustment programme. As far as new initiatives regarding the external debt problem (commercial or multilateral) are concerned, the Netherlands has proved to be a frontrunner in Bolivia.

### *Resources*

Efficiency in using resources for buy-back operations has been high. In 1987, debt titles were purchased at a price of 11cts/US\$, which means that each guilder invested achieved a 'return' at a nominal value of Dfl. 9; in 1992, at a price of 16cts/US\$, this ratio was 1:6.25. In fact, efficiency is better expressed if the price paid is compared to the intrinsic value at that time. Or in other words: was it—economically speaking—the 'best price' for the debt titles? The best proxy is the market price, which was between 8 and 11cts/US\$ (other banks, e.g. the Bank of America, expected higher prices, between 16 and 20cts/US\$). The price paid one year later by Merrill Lynch was still 11cts/US\$, showing that Dutch resources were used according to market value, and therefore efficiently.

### *Capacities*

During the period evaluated, one office within DGIS (until 1997, DMP/MZ) was entrusted with external debt relief activities. This department managed its own budget and drew up annual lists of countries eligible for macroeconomic support, including debt relief. The office operated 'worldwide' and its principal sources of information were the IMF and the World Bank. For country-specific details it depended on the Ministry's regional departments and the embassies. During the early years of the Dutch presence in Bolivia, the information provided on the country's macroeconomic performance was rather obsolete and imprecise. From 1990 on the quality and analysis of the data improved. Until 1993 the MCTH was rarely consulted on, or even notified, of debt relief activities. The delegation in La Paz is still not professionally equipped to deal with macroeconomic matters (1995).

On the Bolivian side, in 1985 the government entrusted the elaboration of its policy on external debt to the Special Committee for the External Debt.<sup>7</sup> Later the External

<sup>7</sup> The Committee for the External Debt consisted of:

- the President of the Central Bank of Bolivia
- the Undersecretary for Foreign Affairs
- the Undersecretary of Financial Policy of the Ministry of Finance
- the Undersecretary of Economic Policy of the Ministry of Planning and Coordination.

Finance Committee was set up, consisting of the Ministers of Planning, Foreign Affairs, and Finance, and the President of the Central Bank of Bolivia.

Institutional changes (1985) caused the Central Bank of Bolivia to lose control over the monitoring of the external debt. The Bank returned to its traditional role as an issuing body and monetary authority, but the various debt-related tasks were dispersed among the Ministry of Foreign Affairs, the Ministry of Planning and Coordination, the Ministry of Finance and the BCB. In 1985 the Bolivian negotiators on external debt still had insufficient knowledge of the country's debt situation and lacked bargaining power, but these deficiencies were rapidly overcome. However, frequent changes in institutional organization, responsibilities and personnel caused discontinuity. In 1994, the responsibility for the external debt was reorganized once again. The role of the BCB was amplified, but the TGN, the principal responsible for the payment of the debt service, lost influence on the monitoring.

#### *Formulation, appraisal and evaluation*

Ex-ante appraisal studies were relatively 'thin' in the early years (1987–1989): the information contained was limited and not always precise. The internal appraisal (known as the 'BEMO') of the second buy-back operation in 1992 was more detailed. Considering the sizeable amounts involved in external debt relief activities, it is remarkable that until 1995 DGIS never contracted external advisers for ex-ante analysis, formulation or evaluation of the activities.

#### *Donor coordination*

There are two types of donor coordination, being coordination by the recipient country regarding the development activities for which donor assistance is needed and coordination among the donors themselves. Both types are important. Current Dutch policy on debt relief insists on coordination with other donors and in particular with the international financing institutions (DGIS 1994:31).

Considering the first type of coordination, as far as commercial debt relief activities are concerned, Bolivia organized a task force in Washington to coordinate with the IMF and World Bank. Bolivia also aimed to get bilateral donors interested in its commercial debt alleviation programme. However, at the start of the structural adjustment programme, most donors (except Germany, Switzerland and Sweden) were reluctant on macroeconomic issues. DGIS maintained contacts with the World Bank and the IMF, although the Netherlands activities on the first buyback were not in line with those of the IMF.



Regarding the second type, coordination among donors in Bolivia was initially scarce. A limiting factor for the Netherlands was the absence of formal representation in Bolivia, so contacts had to be channelled through the embassy in Peru. After the opening of the MCTH in La Paz, the Dutch representation gained leadership in the group of 'like-minded' countries. However, DGIS did not make use of that role to get allies for its policies.

As far as bilateral debt is concerned, the Netherlands coordinated with other creditor countries within the framework of the Paris Club, i.e. with the member countries and the international observers. In the case of Bolivia, DGIS did not take part in the Paris Club meetings, since the debt portfolio did not include concessional loans. However, DGIS was always well informed by the Ministry of Finance on the agreements reached. Multilateral debt relief was coordinated in particular with the World Bank and the Swedish government.

The debt relief activities were carried out independently from the country development programme and no attempt was made to link debt relief with the regular programme of projects in Bolivia (for example by means of debt swaps).

### *Opportunity*

Other countries opted for different types of debt relief, such as debt swaps and other conversions (Germany, Belgium, Canada and Switzerland with swaps generating counter values strengthening their country programmes).

The Netherlands did not pursue suggestions for conversions made by the Bolivian government. DGIS did not agree to such proposals since there were no (aid) debts to convert, while the Netherlands delegation to the Paris Club was never officially approached on the subject. A more important reason is that DGIS and the Dutch Ministry of Finance consider conversions to have several disadvantages, such as:

- the risk of driving up inflation;
- they require the country to free funds 'now' instead of 'in the future'; in other words, they entail an additional expense in terms of present value;
- the transformation of a macroeconomic instrument into a project level one; in this case it would be no more than a complicated way of funding projects;
- control is difficult and requires special attention from the embassy.

This does not imply that debt swaps are never considered by the Netherlands,<sup>8</sup> but grants for debt relief are a more beneficial option for the recipient country than debt conversions.

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<sup>8</sup> As a result of the Fourth Session of the UN Commission on Sustainable Development in April 1996, the Netherlands Government hosted an expert meeting (November 1996) on debt for sustainable development swaps, in order to provide an in-depth analysis of this instrument and to generate policy recommendations for its application.

Although DGIS did not favour conversions with its own resources, it is remarkable that it did actively support conversions by other financiers, for example if the local currency was to be used to co-finance projects with the Dutch bilateral aid programme (for example, the Children's cultural museum is a co-financing agreement between the Netherlands and a USAID debt conversion).

## **5.7 Sustainability of debt relief**

In 1995, the Paris Club members believed that the stock of debt reduction under the Naples terms would give Bolivia a sustainable debt profile. Members decided on to offer an exit agreement, which is a vote of confidence that Bolivia would comply with all its future repayment obligations. Additional credits were considered to be necessary for the implementation of the economic and social programmes, and continued concessional loans (and grants) would be needed to finance the balance of payments, but Bolivia would be able to service its debt.

However, additional loans do not automatically contribute to an improvement in servicing capacity. Of all external loans contracted by the public sector between 1985 and 1993, only 62.1% was destined for investments. Of all disbursements received during the same period, only 16.6% were used for the sectors associated with the production of goods (agriculture, mining and industry). This resulted partially from the ban on public enterprises contracting external loans directly, although about 33% of all credits (Villegas and Loza, 1996:16) were taken out on behalf of public enterprises and the Regional Development Fund. Bolivia has used post 1985 credits mainly to finance investments in the social sector (education and health) and on other obligations.

Any indebtedness strategy should focus on achieving a sustainable balance between long-term debt-service obligations and the potential capacity of the economy (and the Treasury) to repay this debt. The Central Bank of Bolivia never carried out a debt sustainability analysis to set its own standards. The most frequently used debt burden indicator is the future debt-service obligations as a ratio of export earnings. During the decade 1985–95, the ratio of debt service to export earnings has hardly improved according to the data of the BCB, and modestly according to the indicators used by the World Bank. The World Bank and IMF (1995) projected this ratio up to the year 2004. According to this projection, Bolivia would face short-term liquidity problems resulting from the service obligations on non-concessionary multilateral loans, while in the long-term there would be a modest solvency problem with a TDS/XGS ratio above 20%, with the multilateral debt-service obligations requiring between 10 and 12% of TDS/XGS. This is considered a moderately sustainable debt profile. However, the assumptions made in the forecasting

were not always realistic<sup>9</sup> and resulted in an optimistic view (Martin 1996:6; Cornelissen and Salinas 1996:77).

Both the international financing institutions and the Bolivian authorities agreed that the desirable TDS/XGS of less than 20% would require an additional effort in reducing the (multilateral) debt service obligations. Martin calculated that in order to bring its debt/export service ratio below the sustainability threshold of 20%, Bolivia would require US\$ 417 million of multilateral debt relief over the period 1996–2001 (Martin 1996:11).

The contractual repayment obligations on outstanding long-term debts were projected as follows:

**Table 5.13 World Bank projection of Bolivia's debt-service obligations 1996-2004 (in US\$ m.)**

Year	Principal payment to official creditors	Interest payment to official creditors	Total payment to official creditors	% to multilateral creditors
1996	304	173	477	54.3
1997	272	160	432	60.2
1998	248	148	396	63.6
1999	248	138	386	65.0
2000	220	127	347	67.4
2004	182	84	266	60.9

Source: World Bank 1996.

The debt servicing will have to be paid mostly from public revenues, or in other words, the capacity to pay does not depend on export earnings only, but also on the relative weight of the debt service on national public expenditures. The repayment capacity will have to be secured by the potential to generate sufficient fiscal revenues.

In 1996 an IMF debt sustainability analysis concluded that Bolivia's debt service obligations would remain very high for the next few years and the IMF classified Bolivia as one of the twenty HIPCs. This qualified Bolivia for special treatment by the IMF and World Bank and by the bilateral creditors. In October 1997 a total debt reduction of US\$ 448 million was agreed upon with the World Bank and IMF in order to obtain a sustainable debt profile.

<sup>9</sup> The assumptions included an increase in export value of 3% annually (the construction of a gas pipeline would boost export earnings from 1996 onwards), a restricted new (multilateral) borrowing to a maximum of 3% of the current stock of debt, while only concessional loans would be contracted, and that the overall investment rate is a constant, so any decline in the rate of public investment would be compensated automatically by a growth in private investment. In practice the gas pipeline was not yet operative in 1996, new credits exceed the 3% of the current debt stock and not all additional credits are on concessional terms, while private investments are still below expectations.

There are arguments which reduce confidence in the sustainability of the Bolivian debt profile:

- The new composition of the external debt displays a higher level of inflexibility than in 1985, due to the prevalence of obligations which are difficult to renegotiate and are contracted for longer periods. Of the post 1985 loans the majority have been used for social sector reforms and do not contribute directly to increasing payment capacity.
- Bolivia contracted non-concessionary loans from the CAF in order to finance the matching counterpart funding for the credits obtained from the IDB. Compliance with the conditions for disbursement on external credits by contracting additional non-concessionary loans is not a sign of sustainability.
- With Bolivia's current macroeconomic policy, which aims to reform the social services and focus on good—decentralized—governance, makes the international financing institutions and bilateral lenders eager to provide new loans. Supply-driven demand<sup>10</sup> increases the risk that the country will exceed sustainable levels of indebtedness.

It is important for Bolivia to develop its own strategy on indebtedness and define its own indicators to determine whether its 'debt profile' can be considered sustainable or not. In particular a strategy should be developed regarding the conditions for contracting non-concessional loans, as well as multilateral (including concessional) loans.

Notwithstanding the expected persistent financing gap, international financing institutions and regional banks should be cautious in issuing new loans, since there is a danger that, during the coming years, Bolivia may receive inflows of capital from both public and private sectors exceeding the absorption capacity of the economy (van Ryckeghem and Seligmann 1996:8). Donor coordination should play an important role in this respect.

### *Replicability*

Debt relief as an instrument of development cooperation has played a positive and innovative role in Bolivia. As an instrument it has its merits, but there are also a number of (potential) disadvantages:

- it might affect the repayment discipline of countries which benefit from relief initiatives over a long period;
- it might affect the repayment discipline of countries which have always complied with their debt servicing obligations;

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<sup>10</sup> In the case of the IDB, the amount in loans provided and in portfolio to Bolivia exceeds the indicators on indebtedness established as norm by the same bank. The IDB had some US\$ 520 million to be placed in Bolivia during a three year period (1994–1996), while the portfolio for 1996–97 is US\$ 326 million (75% to the social sectors). The World Bank had an annual portfolio of US\$ 80–100 million for Bolivia (1994).

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- since debt forgiveness is an ODA expenditure, it may tempt donors to use this mechanism indifferently: it is an administratively ‘easy way’ of complying with ODA objectives, without requiring a new cash outlay (an exception is multilateral debt relief which does require a cash outlay).

As an instrument to the same country, debt relief is believed to have decreasing marginal returns and preference should be given to ‘once and for all’ solutions.

## 5.8 Conclusions regarding the Dutch contributions to debt relief

The effects of the Dutch contributions to debt relief cannot be distinguished from those made by other bilateral donors or financing institutions. As a result of debt relief and rescheduling efforts, changes can be observed in the composition of Bolivia’s official external debt: the debt portfolio shows a sharp reduction in the private bank debt (thanks to buy-backs and conversions), a stabilization or reduction of the bilateral debt (thanks to restructuring and forgiveness), and a simultaneous increase in the multilateral debt, due to new loans contracted to finance economic and social reform programmes. In 1995, the international financing institutions were the principal financing source, the IDB being the most important one, followed by the IDA and CAF.

### *Policy relevance*

The relevance of external debt relief for Bolivian development policy is closely related to its macroeconomic policy, in particular the structural adjustment programme. The Dutch contributions have supported these policies and have been relevant, because:

- the support for the buy-back of the commercial debt (as first donor country) enabled Bolivia to rejoin the international financial market;
- the Netherlands played a pioneering role among the donors; its support paved the way for other donors and even contributed to the introduction of new multilateral financing instruments, such as the IMF Trust Fund.

### *Effectiveness*

Notwithstanding all international support for debt relief, the World Bank still classifies Bolivia as a ‘severely indebted middle-income country’. The effectiveness of the Dutch support cannot be separated from international efforts. Within the framework of the Paris Club, the Netherlands usually chose options which were the most favourable to Bolivia. In terms of Dutch guilders the debt was reduced by half (from Dfl. 96 million in 1985 to Dfl. 46.7 million after the Paris Club VI exit agreement in 1995). However, changes in the exchange rate between the US dollar and the guilder, as well as the capitalization of interest contra-balanced the impact in terms of US dollars.

The Netherlands initiatives to repurchase commercial debt titles (1987) and the subsequent deposits in the IMF Trust Fund and IDA Debt Reduction Facility for the same purpose were very effective. With the direct buy-back US\$ 15.9 million in debt titles were taken out of the market, while the Netherlands was the first country to deposit funds in the IMF Trust Fund, convincing other donors. With these deposits, Bolivia was able to repurchase titles with a nominal value of US\$ 243.1 million. Through the IDA Debt Reduction Facility another US\$ 191 million could be removed. In 1995 Bolivia had almost no commercial bank debt left.

Particular to the Bolivian case is that the idea of repurchasing titles on the secondary market with donor funds did not originate from the international financing institutions, but from talks between Bolivia and the Netherlands. The first purchase of commercial debt titles on the secondary market was not without risks: direct purchase could have created expectations on the market, with consequences for prices. However, the result was highly positive, because it functioned in practice as a way of sounding out of market possibilities, which were virtually unknown before.

More important than the changes in the total debt is the capacity to comply with the servicing obligations. Here the effectiveness of donor support for debt relief has been balanced out by contracting new credits. The ratio of debt service to export earnings hardly improved (but did not deteriorate either) during the decade 1985–1995. The debt reduction provided relief to the National Treasury since it contributed to a modest fall in the weight of the debt servicing on fiscal expenditure.

### *Efficiency*

In terms of timing, the Netherlands has proved to be a frontrunner on debt relief activities in Bolivia. It took the lead in using bilateral donor funds to repurchase part of the commercial debt, and the operation made efficient use of financial resources. Donor coordination is a requisite for efficiency in debt relief activities. Initially, donor coordination was rather modest and the Netherlands even acted on its own. This activity did not fit in with the strategy of the IMF. The first buy-back of commercial debt by the Netherlands surprised the donors, but it worked out positively and represented a breakthrough with regard to the systems in force at the time. Afterwards, the Netherlands was complimented for having opened up new options and for having sounded out the market. A limiting factor for the Netherlands was the absence of formal representation in Bolivia, so contacts were rather indirect (slow and with a lot of misunderstandings). As far as bilateral debt is concerned, the Netherlands coordinated with other creditor countries within the Paris Club, multilateral debt relief was coordinated with the international financing institutions and in particular with the Swedish government.

*Sustainability*

While, in 1995, the Paris Club members believed that Bolivia would soon obtain a sustainable debt profile, a 1996 IMF debt sustainability analysis modified that opinion.

At present, Bolivia has a better debt profile than in 1985. Nevertheless, Bolivia's repayment capacity has only partially improved due to the contracting of new credits, while the economy remains vulnerable due to its dependency on the export of raw materials, insufficient private investment and reliance on public sector investments.

Bolivia should formulate its own policy on indebtedness standards. Both donor support for the multilateral debt servicing and a more cautious lending policy by the IDB and World Bank will be required to achieve a sustainable debt profile.





## 6 Dutch support for social funds in Bolivia

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### 6.1 Social funds and Dutch support

#### 6.1.1 *Objectives, mandate and targeting of social funds*

The structural adjustment programme was intended to enhance economic growth in the medium term. In the short term, however, it was envisaged that the standard of living of particular social strata would decline, because of the expected increase in unemployment, changes in relative prices (which meant higher prices for consumer goods, including food) and a consequent reduction in the consumption levels of the poor. Economic adjustment not only affects the existing poor, but also gives rise to ‘new poor’: people reduced to poverty as a result of the economic reforms. Since the mid-1980s, the social dimension of structural adjustment (how economic adjustment measures affect the well-being of particular social strata) became a growing social and political concern for both governments implementing adjustment programmes and the international financing institutions supporting these programmes.<sup>1</sup>

Various instruments, mostly referred to as ‘safety net facilities’, were created to mitigate the negative effects of economic adjustment. One of those facilities is the ‘social emergency fund’, conceived as a palliative measure to help the poor during the immediate aftermath of structural adjustment measures, until the longer-term benefits reach them. The implementation of these funds varies widely from country to country. The objective was to create a quick-disbursing entity (which is therefore usually separated from the ministerial bureaucracy) to finance labour-intensive infrastructural and social projects, which would provide families directly affected by the structural adjustment measures with the opportunity to earn an income. Social emergency funds are considered transitional, to be replaced after three to five years by social investment funds. The latter are intended to be less temporary and less assistance-oriented, to have a more specific sectoral focus and to better address *structural* poverty problems.

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<sup>1</sup> Since 1987 the operational guidelines of the World Bank have required that all reports analysing and monitoring the impact of the adjustment programmes should pay attention to measures to mitigate possible negative effects on the poor strata of the population.

Although there has been a social fund in Costa Rica since the late seventies, the Social Emergency Fund (FSE) in Bolivia is generally considered the first safety net facility of its kind. It targeted particularly the new poor, such as unemployed miners and civil servants.

The FSE was designed to:

- provide temporary employment for those most adversely affected by adjustment measures;
- shore up basic social services in a time of declining government revenues and expenditures, through fast, efficient provision of financing for small subprojects proposed and carried out by a wide range of entities;
- improve the access of the poor to social services;
- strengthen institutions, by improving the effectiveness and efficiency in providing public services.

(World Bank 1990b:11–13 and Stewart and van der Geest 1994:8, 9).

After the social emergency fund had been fully operational for three years, the Bolivian government decided to seek an approach geared more towards structural poverty alleviation. This required the use of another type of instrument, so the emergency fund was replaced by the Social Investment Fund (FIS).

The overall objective of the FIS—to bring about improvement in national social indicators—was different from that of the FSE. Its three specific objectives were as follows:

- to extend coverage of health, education, and water and sanitation services in order to reach a larger part of the population (in particular the poor) in Bolivia;
- to increase external support to the social sector by providing an efficient mechanism for donors to contribute to priority investments in the social sectors;
- to provide a coordinating link with the many agencies active in the social sectors

(World Bank 1990b:11).

Initially (1990–93), the FIS had a clear mandate to alleviate poverty by means of investments in the social sector, while by the end of that period, it had started to focus on rural areas and aimed at the integration of its activities with other projects at a local level, through joint planning procedures. The FIS has assumed the role of a financing institution (not an implementing agency) for projects fitting into the overall policies set by the Secretariats for Participation, Education, Health, Ethnicity, Gender and Generations. This period coincided with a first World Bank credit and is referred to as FIS-I. A number of policy changes were made before the start of a second World Bank loan, known as FIS-II (1994). Since 1995 (on the basis of the popular participation and decentralization laws), the FIS has been more geared towards human and social development in a number of municipalities prioritized by the government. Until 1996 the FIS did not finance productive investments.

While the FSE was clearly a ‘social safety net facility’, the FIS only fitted into that category during the initial years of operation, after which it gradually became more of a ‘social development fund’. In 1996, the Bolivian government was financing a number of social safety net facilities, such as the new pension system, and the nutrition and integrated health care programmes, but generally the FIS is no longer classified as such.

The conceptual evolution of the social funds can be summarized as follows:

**Table 6.1 Conceptual evolution of Bolivia’s social funds**

	<b>FSE ('87–'90)</b>	<b>FIS-I ('90–'93)</b>	<b>FIS-II ('94–'97)</b>
<b>development paradigm</b>	emergency relief	poverty alleviation	human and social development
<b>background objectives</b>	obtain people’s acceptance for harsh economic measures; restore confidence in the state and government	show presence of the state nationwide; attract international financial support	set conditions for sector reforms; attract international financial support
<b>objectives</b>	employment generation	improvement of coverage of social infrastructure	improvement of the quality of life (social impact)
<b>activities</b>	investment in infrastructure	investment in social infrastructure and services	investment in human resources
<b>modalities</b>	demand driven projects	demand and supply driven projects focused on areas selected on poverty criteria	focused and coordinated at municipal level in rural provinces. International fund-raiser
<b>rural–urban</b>	predominantly urban	both urban and rural	90% rural (1995)
<b>implementation</b>	significant NGO involvement in implementation, and self-help	mainly by private contractors	diversification of implementation modalities
<b>participation</b>	apart from the provision of labour, little community participation	incipient community participation in planning	strengthening and institutionalization of popular participation
<b>permanency</b>	restricted (3–5 years)	temporarily, medium term	open-ended

Source: Elaboration based on data from FIS and World Bank.



### ***6.1.2 Description of the Social Emergency Fund***

In 1986, the Bolivian government created the FSE as an independent organization to generate temporary employment and to overcome the weaknesses of the social sector ministries in providing an adequate response to growing demand for social services.

Eligible subprojects included small-scale employment generating and social assistance programmes, all targeted at low-income populations and areas. The FSE did not implement the projects directly, but involved the private (commercial and non-commercial) sector. Subprojects were designed and implemented by a variety of local organizations and community groups known as ‘requesting agencies’. Non-governmental organizations (NGOs), cooperatives and local government organizations submitted projects and were involved in their implementation. The subprojects were divided into the following categories (World Bank, 1990b:7,8 and Balcázar 1996:4–7):

a. Assistance with income generation

The extensive use of skilled and unskilled manual labour aimed at providing supplementary incomes. Subprojects included:

- the construction of social infrastructure (48% of all financial commitments): the construction and rehabilitation of educational centres, health centres and posts (box 8

**Box 8. The rehabilitation centre for street children in Quillacollo**

In 1988 the FSE started the construction of a rehabilitation centre for street children (most of them (ex-)drug addicts) in El Paso, Quillacollo, at a cost of US\$ 205,911. No budget allocations were made for the recurrent costs of running such a centre. Construction was completed in 1990. Although originally intended as a day-care centre for up to 200 persons, providing nocturnal shelter only in case of emergency, in practice it accommodates 25 to 30 children day and night.

The design of the centre's infrastructure is unsuitable for its actual purpose. It is run mostly by volunteers from a non-governmental organization, which provides three meals daily for the children. The NGO lacks the financial means for maintenance, equipment and other services. Although considered to be a health facility, there are no medicines or medical equipment available, while only one health attendant is paid for by the Secretariat for Public Health.

The overall standard of maintenance is extremely poor. The building is equipped with three toilets, of which only one can be used. There is one small room for the staff and the 20 metallic beds (less than one per child) are in poor shape. Furniture is practically absent. Almost all the windows are broken, the electricity supply is only partially operative, and bare electric wiring presents a direct health hazard.

- presents an example), housing, drinking-water supply and sewerage systems, and projects aimed at restoring or protecting the national and cultural heritage;
- economic infrastructure (36% of total commitments): mainly the improvement of urban and secondary main roads and sewerage systems, but also irrigation projects, erosion control programmes and reforestation projects;
- b. Direct social assistance
- Nutritional programmes, health services, training and the institutional strengthening of grassroots organizations (11% of total commitments);
- c. Assistance with production
- Mainly credit facilities provided to agricultural, mining and small enterprise cooperatives (5% of total commitments).

The financing plan for the FSE was based on an overall target of US\$ 180 million for subproject financing. About US\$ 100 million was supplied by a credit from the International Development Association. Owing to both a greater-than-expected response to FSE's fund-raising efforts and favourable currency movements, the total financing for the programme finally amounted to US\$ 239 million, of which about US\$ 190 million was used for subprojects, leaving an uncommitted remainder by the end of its operational period (May 1990). The operational costs of the FSE did not exceed 3.0% of the investments.

The FSE's share in total public investments in the social sector was considerable, which could be explained by the almost absolute absence of other channels for public investment during that period. The distribution of investments by sector is illustrated by table 6.2.

**Table 6.2 FSE investments by sector and year (in %), and its share in total public investments, 1987–91**

Sector	1987	1988	1989	1990	1991	distribution of FSE investments (%)	FSE as % of total public investments in the sector
health	2.5	9.2	8.5	7.2	19.8	8.6	12.4
education	4.9	18.1	20.3	14.5	5.8	16.1	47.0
water supply and sanitation	16.0	15.9	20.7	14.5	22.1	17.3	19.8
housing and urban facilities	54.0	38.0	34.5	39.8	22.6	37.3	29.8
multisectoral	18.6	12.2	9.3	20.9	24.6	15.2	16.2
other	4.1	6.7	6.8	3.2	5.3	5.5	n.a
total %	100.0	100.0	100.0	100.0	100.0	100.0	
total (million US\$)	9.76	49.96	57.70	61.19	12.01	190.62	

Sources: Elaboration based on data from FSE.

Note: Relative importance to total public expenditure over the 1987–1990 period.

### **6.1.3 Description of the Social Investment Fund**

The Social Investment Fund was created in January 1990 as a successor to the FSE with a mandate to alleviate structural poverty through the financing of projects within the health, water supply and sanitation and education subsectors. The FIS was intended to complement the works of the line ministries. The first FIS credit line (FIS-I) provided by the World Bank (US\$ 20 million, April 1990) covered the 1991–94 period (and was fully disbursed after a one year extension in 1995). The governments of the Netherlands, Sweden and Switzerland, as well as the OPEC, provided US\$ 12 million in a co-financing arrangement. An additional US\$ 27 was provided in parallel financing by Canada, Germany, the United Kingdom, and (with countervalues) the Netherlands. The FIS-I financed 510 subprojects to a total cost of US\$ 33.74 million. Health projects, including basic sanitation, represented 58% of total investments, education projects 39% and institutional support projects 3%. The second credit line (FIS-II, US\$ 40 million, June 1993) covers the period from the end of 1993 up to the end of 1997 (World Bank 1996b: iii). Until 1995, external funds also covered part of the operational costs, but since then almost all loans and donations have been used for (sub)project funding. The government, through the municipalities, covers the operational costs.

The so-called Social Strategy, which articulated the government's social policy and objectives in 1991, formed the basis for more sector specific policies and strategies (the Water for All Plan: 1992–2000, the Educational Reform Plan, the Ten Year Plan for Women en Children, the National Programme of Strategic Actions). Since 1992, the FIS has focused on particular rural districts with extreme poverty indicators. In contrast to the FSE period, during the FIS-I poverty targeting became the key mechanism in the selection of subprojects. 80 of the country's 112 provinces were selected for priority treatment while, since 1995, investments have been focused on approximately eighty priority (rural) municipalities, selected as pilot areas for the Popular Participation Law. In 1995 91.6% of financial resources were allocated to rural areas.

Since it went into operation, the FIS has received financial support from 29 sources, excluding national contributions. According to the FIS's financial records, the direct public contribution by the National Treasury covers about 5% of overall costs, but this rises to over 11% when the counterpart contribution by the municipalities is also taken into account. During the 1991–1995 period, the FIS implemented 1,636 projects with a total disbursement of US\$ 84.2 million. Of these projects, 40.1% of the investments were made were in the education sector, 27.4% in the health sector, 27.3% in water supply and sanitation, while 5.2% went to other type of social projects (boxes 9 and 10 describe examples of FIS projects in education and health).

#### ***6.1.4 Dutch financial support for Bolivia's social funds***

Financial support for the social funds by the International Financing Institutions and by bilateral donors has been impressive. In addition to the US\$ 100 million credit by the IDA, over US\$ 130 millions were pledged to the FSE from different sources. Although the FIS did not initially reach similar levels, both the emergency fund and the social investment fund have undoubtedly been able to attract sizeable amounts of external financial support that would most likely never have been acquired without them. The Netherlands was no exception to this donor effort.

DGIS' support for the emergency fund in Bolivia was its first experience of this kind in Latin America. By 1995, the Netherlands had supported five social safety net facilities in Latin America to an amount of US\$ 53 million (Cornelissen, 1996:5). Direct financial support to the safety nets was funded from budget category IIc: Andes Region. The Netherlands was one of the first bilateral contributors (together with, for example, Switzerland and Germany) to the FSE. In 1988, Dfl. 37.5 million were donated in a co-financing arrangement with the IDA for the benefit a three year programme. The Dfl. 3.5 million allocated to the FIS in 1991 consisted of undisbursed funds from the

FSE. No additional resources were allocated. Apart from the direct co-financing, both the FSE and FIS received countervalue funds generated by the donation of an airplane and electric bulbs, as agreed upon between the Dutch and Bolivian authorities (Letters of Implementation of the import support programme). In 1992, the FIS also received 'left over' electric bulbs in kind. One component of the Investment Programme for Health Services (PROISS) complements the Dutch support for the FIS.

The financial administration of both the FSE and the FIS has recorded the countervalue funds generated by the imports as contributions from the Netherlands. Strictly speaking, however, these are Bolivian contributions (the import goods were donated, so the revenues generated by the monetization of these goods are owned by the government and could have been used for any public expenditure).<sup>2</sup>

In May 1990, the social emergency fund discontinued the appraisal of newly submitted project proposals and continued solely with the implementation of previously approved projects. The World Bank administered the Dutch grant. At the time, its records showed that approximately Dfl. 3.5 million would remain unspent after the FSE ceased operations. The IDA asked DGIS to transfer these resources to the FSE's successor, the social investment fund. However, after the administrative closure of the FSE's accounts in 1992, Dfl. 6,7 million appeared to be unspent. Dfl. 3.5 million were transferred to the FIS, while the 'additional' Dfl. 2.9 million were used to finance five projects for institutional strengthening at a number of ministries.<sup>3</sup> These activities were not evaluated by the IOB.

Table 6.3 summarizes Dutch financial support for the social funds in Bolivia. Table 6.4 presents the number of projects and disbursements by the FSE and the FIS financed with Dutch resources (incl. countervalue funds, excl. PROISS) 1988–95.

The Netherlands government never earmarked its contribution to specific departments or provinces, or to specific sectors. Of the Dutch contribution to the FIS-I programme (US\$ 1.9 million) 23.6% was used for primary health care and nutrition programmes, 36.3% for education, 27.1% for water supply and sewerage and 13.0% for institutional strengthening and the administration costs of the FIS.

Up to the end of 1995, the FSE had implemented projects totalling US\$ 15.7 million with Dutch resources (incl. countervalue funds), while the FIS financed projects valued

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<sup>2</sup> The same applies to countervalue funds generated by donations from other donors, such as Great Britain and Switzerland. If all countervalue funds used for FIS activities were considered as national contributions the Bolivian contribution would amount to 15% of total expenditure.

<sup>3</sup> Source: Información Financiera TF 22359. Cr. 2127/BO—Cofinanciamiento Holandés. World Bank. 31 January 1996. Differences in data are explained by rounding-off and fluctuations in exchange rates.



**Table 6.3 Dutch financial support to social funds in Bolivia**

Period	Fund	Financial commitment (mln US\$)	Indirect financing (mln US\$)	Expenditure (mln US\$)	Remarks
1988–90	FSE	18.4		14.8	US\$ 1.9 mln transferred the FIS. The remainder US\$ 1.6 mln destined to 5 projects outside the FIS
1991–93	FIS	(1.9)		1.9	US\$ 1.7 mln to projects and US\$ 0.2 mln to administration
1990–94	FSE and FIS		2.9	2.8	countervalue funds, Fokker airplane
1992–	FIS	0.4		0.2	PROISS (El Alto)
1989–92	FSE and FIS		0.5	0.5	countervalue funds Philips lamps
1992–	FIS		0.8	0.4	Philips lamps (in kind)
Total		18.8	4.2	20.6	incl. countervalue funds
Total		18.8		16.9	excl. countervalue funds

Source: Elaboration based on data from DGIS, World Bank and FIS.

**Table 6.4 Projects by area, financed with Dutch support (incl. countervalue funds), 1988–95**

Area	No. of projects	Amount disbursed in US\$	No. of projects	Amount disbursed in US\$	% of total dis- bursements per capita in US\$	Total dis- bursements
	FSE	FSE	FIS	FIS	FSE and FIS	FSE and FIS
urban departments	248	3,337,859	35	947,944	22.2	2.6
lowland departments	196	3,580,428	52	786,083	22.6	4.1
highland departments	467	8,379,453	115	1,762,681	52.4	3.8
various	9	366,688	3	165,204	2.8	–
total	920	15,664,427	205	3,661,911	100.0	3.0

Source: Elaboration based on data from FIS, Nov. 1995. Demographic data: UDAPSO 1993:5

Note: urban departments: La Paz; lowland departments: Beni, Pando and Santa Cruz; highland departments: all other departments.

at US\$ 3.7 million. The Netherlands has contributed 8.2% of total project financing for the FSE, while Dutch contributions (incl. countervalue funds) to the FIS between 1991 and 1995 represented 4.0% of all financing sources.

### **6.1.5 Dutch policy on social funds**

Since social funds were still relatively new in 1988 and no specific policies on safety net facilities existed, DGIS initially treated the financing as project aid. However, when social funds became a more common instrument in other countries as well, their distinct characteristics became clear. Support for social funds was of a general nature (and not ex-ante earmarked to specific sectors, areas or projects<sup>4</sup>), and was implemented within the framework of a structural adjustment programme. It could therefore be classified as 'programme aid'.

The support for the FSE can best be classified as 'co-financing of sectoral adjustment loans' (DGIS 1994: 20,21), while the support for the FIS (although also a co-financing arrangement with the IDA), would best be classified as 'sectoral budget support', because, from the start, the FIS was conceived to be a sectoral programme (and not an overall employment programme like the FSE). This classification was not made at the moment of appraisal, but was applied afterwards.

Sectoral budget support is a form of programme aid in which foreign currency is offered to a recipient country, which can then exchange it into national currency. These counter-values have to be used within the public budget for specific programmes at a sectoral or subsectoral level, usually in the social services sector (Ministry of Foreign Affairs 1996:4). Sectoral budget support policy was formulated several years after the start of support for the social funds. The key elements include the following:

- the principal policy objective should be sustainable poverty alleviation;
- the resources in national currency should be used for programmes, services and priorities aimed at sustainable poverty alleviation, which form part of the national budget;
- the external resource allocation should be additional to planned national budget expenditures;
- the national financial contribution to the programme should gradually be increased;
- national institutional capacity should be sufficient to implement the programme adequately;
- the budget support should avoid distortions at the macro level, such as inflation and appreciation of the exchange rate.

DGIS has not formulated an explicit policy on social safety net facilities and/or social funds. According to DGIS the objective of these facilities is 'poverty alleviation and temporary compensation for the victims of structural adjustment'. Reference is made to the World Bank's Poverty Reduction Handbook, which emphasizes that these programmes should be implemented by the recipient countries' governmental institutions; that the

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<sup>4</sup> An exception was the support to the health sector PROISS.

recipient country should financially support the safety nets and that these should have a temporary character (DGIS 1994:21).

In the evaluation of this form of programme aid, both macro-level and micro-level aspects were considered. Attention was paid to the policy relevance, the effectiveness, efficiency and sustainability of the support for social funds. Notwithstanding the differences in objectives between the FSE and the FIS, they were analysed in a similar way, with exception of the employment aspects, which were analysed only in the case of the FSE.

## **6.2 Policy relevance of the support for the social funds**

### *Relevance in relation to social problems*

In 1985, when the economic adjustment programme in Bolivia started, the country's social indicators, in particular for education and health, were far below the average for Latin America, and in fact much closer to those of Sub-Saharan Africa (see table 2.2). Malnutrition was widespread. In 1980, 47% of children under the age of five were malnourished, according to Gomez's classification.<sup>5</sup> Daily calorie intake was 65% of the requirements in urban areas and 59% in rural areas (World Bank 1990a:7,8). These indicators can be partly explained by the problem of poverty itself, and partly by the insufficient supply of social services. Public social services deteriorated during the 1980–1985 period as a consequence of the economic crisis.

Stabilization measures, as envisaged in 1985, usually imply government austerity in expenditure on health, education and other social services, as well as the abolition of subsidies and the 'rationalization' of state enterprises. A curtailed public budget for the social sectors in combination with an increased unemployment in the formal sector would affect access to social services. A further decline in the social indicators was a worrying perspective.

While the FSE aimed simultaneously at expanding temporary earning opportunities and improving social services (mainly the educational infrastructure), the FIS focused mainly on the construction and improvement of the social infrastructure. Considering the problems experienced by the social sectors at the time, the policy relevance of creating a quick disbursing entity to provide assistance to these sectors was abundantly clear. The strategy of giving prevalence to infrastructure, such as educational and health centres, could be open to question (infrastructure alone does not solve the problem), but has been

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<sup>5</sup> Chronic malnutrition measured as low height for age (stunted growth).

put sufficiently in perspective by the sectoral reforms, such as the Educational Reform and national health programmes (World Bank 1990a:59–94). The creation of a social fund was a relevant policy in relation to the existing problems in the social sectors, and in particular by creating an infrastructural environment which allowed the implementation of the reform programmes.

**Box 9. The Anzaldo primary school**

In 1992 the FIS constructed an additional 11 classrooms with sanitary facilities at the Anzaldo primary school in Esteban Arce in Cochabamba at a cost of US\$ 30,570. The construction was complementary to facilities financed and managed by a religious organization which receives funding from Italy and Spain.

In 1996, the school consisted of 21 classrooms for 685 children, sports fields, toilet buildings and a boarding school (171 students). The high prestige of the school attracts students from various communities, some of them at distances of up to 70 kms away. The fact that the school has sufficient staff (32 teachers and boarding school personnel) has contributed to the low drop-out rate of 6%. It is unknown whether the extension of the school and the improved facilities have contributed to a higher enrolment of students in the region, or have just attracted pupils from other schools.

The overall infrastructural standard of the building is high, but the quality of the FIS funded classrooms is inferior to the ones constructed with other resources. After four years of use, the roof of the classrooms constructed by the FIS started to leak and required maintenance. The toilets constructed by the FIS are no longer in use due to their inadequate design and they have been replaced.

The equipment at the school is of a high standard; some of the furniture was donated by the FIS, the rest by donors. All students have furniture and textbooks, all teachers have an individual desk, and each classroom is equipped with a blackboard, tables, bookshelves and teaching materials. All rooms have safe and operational electric facilities.

*The relevance of the social funds to Bolivia's development policy*

Both the FSE and the FIS have been priority social schemes for all governments in Bolivia since 1986 and have benefited from strong and continuous support at the highest political levels. A distinction can be made between the roles played by the two funds. The FSE was created at a time when government policies were almost exclusively focused on economic stabilization and the fund's main role was to mitigate the possible negative effects of the economic adjustment programme. The FSE was intended to deal with the social dimensions of adjustment, but this was not the government's first concern. The FIS has had a more pronounced priority, in accordance with the Social Strategy, which indicated that

safety net facilities should no longer be considered as such and that social services should no longer be seen as an expenditure but as an investment in human resources. Between 1991 and 1994, the FIS figured among the government's first priorities,<sup>6</sup> while also the World Bank stated that key priorities should continue to include primary education, basic health care, and water and sanitation, primarily in rural areas (World Bank 1996a:i). Both the FSE and the FIS have had strong leadership and unflagging governmental support under the direct supervision of the President of the Republic.

The social funds in Bolivia have had other, more general and usually not explicit, policy objectives, such as:

- to act as a palliative in order to obtain (political) support from the population for the harsh economic measures;
- to restore the confidence of the population in the state and the government after a period of chaos, dictatorship and violence;
- to demonstrate the physical presence of government activity nationwide, not only in the larger urban centres, but also in remote rural areas;
- to attract international financial support;
- to demonstrate the government's social policy through the mass-media, since social infrastructure is very 'visible';
- to set conditions for the implementation of reforms.

The social funds have been of importance for the implementation of the policies and priorities set by the Bolivian government and the external support, including that provided by the Netherlands, implies recognition of these policies.

#### *Relevance in relation to Dutch development cooperation policy*

The overall priorities of Dutch development cooperation policy are self-reliance, poverty alleviation, gender and environment. In the case of sectoral budget support, however, the specific target groups are not always known. The potential effects on these priorities are therefore taken into consideration in the selection of the sector to be supported. There must, at least be some degree of 'policy convergence' between the Netherlands and the recipient country on these issues (DGIS 1994:27,28,42). The fact that social funds particularly target the poor population means that they fit in very well with the overall policy objectives of Dutch development cooperation.

The Regional Plans for the Andes countries emphasize the relevance of economic self-reliance, balanced socioeconomic development and support for the democratization

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<sup>6</sup> An illustration of this importance is the ministerial status of the director of the FIS up to 1993.

process. Social funds do not contribute directly to the policy objective of economic self-reliance, although the FIS aims to ‘invest in social services, and therefore in human resources, and by doing so contributes to balanced socioeconomic development’ (FIS presentation 1993). The contribution of the social funds to the democratization process has been more relevant. In the first instance, the FSE contributed to the acceptance among the general public of the harsh economic measures taken by the government, while later its activities (shown almost daily on television and to a large extent carried out by NGOs) had the side effect of getting a substantial part of civil society involved. This does not change the fact that the FSE and, to a lesser extent, the FIS have also been used to pursue party political interests. Since 1995 the FIS has contributed to the decentralization and democratization process by decentralizing its planning procedures to the municipal level, by funding courses for local planning and management and by introducing participatory processes at local level.

Donor coordination, in terms of Bolivia’s efforts to get donors to coordinate their action and of actual coordination between donors themselves, has been particular strong. This is illustrated not only by the use of the cofinancing channel for implementation, but also by the fact that many donors contributed bilaterally to the social funds. Both the FSE and the FIS were discussed in the donor community and donors also participated in joint reviews by the World Bank.

Policy relevance in terms of Dutch priorities for development cooperation has been high, while intensive donor coordination has taken place.

### **6.3 Effectiveness of the support for social funds**

The effectiveness of the support was assessed at both macro and micro level. At macro level, it can best be evaluated in terms of the overall social performance of the country, which is generally monitored by means of the Public Expenditure Reviews. Attention was paid to the performance of the social sectors in relation to real and relative public expenditure.

The effects of sectoral programme aid are not restricted to the macro level; there are also micro-level effects. Although targets were set by the FIS in terms of improvements in the social indicators, no specific micro-level effects were formulated by the Bolivian government for the social funds. In general, the effects of sectoral budget aid are intended to contribute to poverty alleviation and should—at least—not have a negative impact on gender aspects or the environment. At both levels, it is clearly impossible to distinguish Dutch support from that provided by other donors.

It has been estimated that the FSE reached 1.7 million beneficiaries and, later, the FIS 1.5 million beneficiaries directly<sup>7</sup> or indirectly during the 1990–93 period (UDAPSO 1993). Approximately one quarter of the entire population has been reached in one way or another by the social funds.

### ***6.3.1 Economic and social effects at the macro level***

#### *Economic indicators*

Economic indicators, in particular public expenditure in the social sectors, could reveal the additionality or fungibility of the external support for the funds. Since the international resources provided for the social funds were geared directly to specific (social) sectors, the possible effects might be observed predominantly within these sectors (health, education).

In order to be effective, the external support requires partial additionality in relation to national public sector investments. If all external resources were used additionally, it would create sustainability problems; and if, on the contrary, they all replaced national investments, there would be no effects at all in the sectors. National resource allocation should gradually replace external support.

Other macroeconomic indicators are the contribution of the social funds to the Gross Domestic Product (GDP), foreign reserves and employment. No attempt was made to assess the potential effect of the substantial financial support on monetary indicators, such as inflation and the exchange rate. It should be noted that the permanent monitoring by the World Bank and the IMF includes factors of this kind, and it might be assumed that possible monetary distortions have not been a serious threat, since no warnings have ever been issued in this connection in the various Public Expenditure Reviews, Policy Framework Papers or project completion reports on the different stages of the social funds.

At the macroeconomic level, the FSE attracted more than US\$ 110 million, and the FIS more than US\$ 70 million (up to the end of 1995) in donated foreign exchange. The provision of foreign currency, to be exchanged against local currency for purchases of locally manufactured products (such as construction material) and the payment of wages, is an effective contribution to the balance of payments. Since, during the FSE period,

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<sup>7</sup> According to the FIS, there were 770,000 direct beneficiaries during the 1991–1995 period. This high number is due to the definitions used by both the FIS and the World Bank (e.g. one person attending two courses was counted as two beneficiaries; all the inhabitants of a community were considered beneficiaries of a health centre).

imported materials were limited to 10% of total subproject costs (and were generally below that figure), at least 90% of the foreign capital inflow to FSE was exchanged for local currency and resulted in a reduction in the current account deficit (World Bank, 1992:6). However, the additional US\$ 100 million which were obtained on credit (IDA) increased the external debt.

The effect of the external disbursements on the current account deficit is illustrated by the following table:

**Table 6.5 External disbursements for FSE investments and their effect on the current account deficit (1988–91) in US\$ million**

	1988	1989	1990	1991
total external disbursements to FSE	45.6	49.7	60.9	8.5
current account deficit	-488.8	-393.0	-338.0	-417.7
change in current account deficit	-19.9	-95.8	-55.0	+79.7
external disbursements to FSE as % of change in current account deficit	229.1	51.8	110.7	
total FSE investments	49.4	53.9	62.3	10.4
public sector investment	357.3	361.0	341.1	418.8
total FSE investment as a % of public sector investment	13.8	14.9	18.3	2.4

Source: World Bank, 1992: 6.

Note: Data may vary from those from other sources.

The substantial amounts disbursed by external sources could have accelerated inflation, contributed to monetary expansion or undermined fiscal discipline, but the Bolivian government's commitment to the macroeconomic stability objectives 'balanced' its expenditures on poverty alleviation programmes. Monetary and fiscal discipline were monitored by the IMF.

Apart from the foreign exchange effects mentioned above, the effectiveness of budget support also depends on the additionality of the external support. The external support should not have entirely replaced national public investments. With the introduction of the New Economic Policy, social expenditure initially fell and was kept deliberately low, but later increased again. However, until 1992, the growth in expenditure to the social sectors was less than that in other sectors.

Since 1991, social sector expenditure has increased on average by 11% per year, while public expenditure in non-social sectors has increased by an average of more than 20%. The share of social sector expenditure in total expenditure during the 1991–94 period



**Table 6.6** Share of social sectors in public expenditure and public investment in selected years

Year	Total public expenditure (in million US\$)	Public expenditure in social sectors as percentage of total public expenditure (%)	Total public investment (in million US\$)	Investment in social sectors as percentage of total public investment (%)
1987	621.3	29.5	279.4	12.2
1990	614.4	38.7	367.0	18.4
1993	995.0	41.6	532.9	17.6
1995	1,815.9	29.2	401.6	20.4

Sources: UDAPSO 1993:49–54; Ministerio de Desarrollo Humano 1995:annex II.

has averaged about 35 percent. Trends in social sector expenditure are presented in table 6.7.

**Table 6.7** Trends in social sector expenditure, 1986 to 1994

Annual averages	1986–87	1988–90	1991–94
<b>as percentage of total expenditure</b>			
education	15.9	24.5	22.6
health and social security	5.6	11.4	9.7
basic sanitation and housing	0.2	0.2	0.2
employment	0.7	1.6	1.8
others social sectors	1.6	2.0	1.8
<b>total social sectors</b>	<b>24.0</b>	<b>39.7</b>	<b>34.6</b>
<b>total non-social sectors</b>	<b>76.0</b>	<b>60.3</b>	<b>65.5</b>
<b>as percentage of GDP</b>			
social sector expenditure	3.3	5.1	6.4
non-social sector expenditure	10.4	7.8	12.2

Source: World Bank 1996, Vol 2:46.

The average annual growth rate of public expenditure in the social sectors while the FSE and the FIS were in operation is presented in table 6.8.

**Table 6.8** Growth rate of public expenditure in the social sectors (in 1980 constant terms)

Average annual growth rate (%)	1980–85	1985–89	1989–92	1992–94
total social sector	–9.6	1.6	4.6	5.3
non-social sector	2.9	–19.7	14.9	–5.4

Source: Based on World Bank 1993:table 1.6 and Ministerio de Desarrollo Humano 1995:annex II.

The increase in public current expenditure in the social sectors during the implementation period of the FSE was modest (1.6%), but nevertheless higher than the negative growth

of almost 20% in the non-social sectors. During the FIS-I period public expenditure in the social sector increased by 4.6%, while expenditure in the non-social sector showed an increase of almost 15%. Efforts to reallocate resources to the social sectors after 1990 (as part of the Social Strategy) were counterbalanced by the need to invest in existing public enterprises. After 1992, the real growth rate of expenditure in the social sectors exceeded that in the non-social sectors.

The public investment account does not reveal priority to the social sectors, since the relative share in total public investments increased only modestly since 1990, as illustrated by table 6.6. The priority of the social sectors may be reflected by new external financing (see chapter 5), it is not by the development of the investment account since 1990.

Dividing the present public investment account by financing source reveals a dependency on external financial resources, mainly external loans, as shown in table 6.9:

**Table 6.9 Implementation of public investments, by sector and financing source, 1995**

<b>Sector</b>	<b>Total expenditure (in '000 US\$)</b>	<b>Percentage of total expenditure</b>	<b>Internal financing (in % of total)</b>	<b>External financing (in % of total)</b>
agriculture	16,105	4.01	34.3	65.7
mining, energy	104,356	25.98	27.4	72.6
industry and tourism	266	0.07	82.7	17.3
transport and communication	162,113	40.37	30.7	69.3
total productive sectors	282,840	70.43	29.7	70.3
health and social security	23,662	5.89	12.4	87.6
education and culture	21,778	5.42	5.4	94.6
water supply and sanitation	33,194	8.27	46.7	53.3
other social sectors	3,272	0.81	64.3	35.7
total social sectors	81,906	20.39	26.5	73.5
other sectors	36,863	9.18	44.5	55.5
total	401,609	100.0	32.7	67.3

Source: National System for Public Investment (Secretaría Nacional de Hacienda, Sistema Nacional de Inversión Pública), 1996.

Since 1995 the allocation of funds under the public budget has been brought into line with the administrative decentralization and popular participation laws. This implies that funds allocated to the social sectors are now largely channelled through municipal and departmental administration. In 1995, approximately 31% of total public expenditure and 20.4% of the public investments were directed to the social sectors, figures which could indicate Bolivia's compliance with the 20-20 target for the social sectors, set during the



Social Summit in Copenhagen in 1996. These figures include financing from external sources. Of all public investment in the social sectors 73.5% is financed by external sources (85.9 % of which is in the form of credits and 14.1% donations). Credits might be considered as a national expenditure, but donations cannot. If all international credits are included in the investment budget and all donations excluded, the Bolivian government made 17.7% of its public investments available to the social sectors. In 1997 64.2% of the national budget will be decentralized, of which 23.4% will be administered directly by the municipalities. Approximately 34.4% is budgeted expenditure for the social sectors.<sup>8</sup>

Although these data do not prove the additionality of the external support to the social sectors, there is also no indication of a substitution effect. But at least part of the external resources can be considered as additional, and this is in all probability the most effective.

Both the FSE and the FIS have been active in financing the construction of infrastructure. Both national and external financing of these activities have had an impact on the Gross Domestic Product (GDP). According to the World Bank (1990b: 8) the investments made through the FSE are estimated to have generated an increase of as much as 2% in GDP (1988). Buxel and Finot, 1991 (quoted by Balcázar 1996:7), estimated that the FSE produced an average added value of about US\$ 50 million, representing 1.1% of GDP

<sup>8</sup> Source: Article by Edwin Carpio, Newspaper Santa Cruz, 24 November 1996.

over a 3-year period. That means that economic growth of 2.6% GDP in 1990 would only have been 1.5% without the FSE. UDAPE (1989) estimated a lower contribution (0.6%) by the FSE to the growth in GDP during the 1986–1990 period.

Since the FSE had a direct mandate to generate employment, its effectiveness in achieving this has been evaluated by various authors, who have arrived at different conclusions. According to the World Bank the FSE generated 19,000 direct and 21,500 indirect jobs per month,<sup>9</sup> 731,000 person-months of employment in total (World Bank 1992: iii). The employment generated was particularly marked in the construction industry. It has been estimated that in 1988 the number of persons employed under FSE-financed subprojects was greater than the employment in the entire construction sector before the FSE (World Bank 1990b:8). Balcázar (1996:8) mentions a ‘conservative’ 60,000 direct and 45,000 indirect jobs during the fund’s four-year existence, which in 1990 represented 1.8% of the Economically Active Population at that time. Workers employed under the FSE subprojects earned 43% more than they would otherwise have earned (World Bank, 1990b:8). However, the new poor did not benefit very much from the fund: ex-miners represented between 10% and 20% of those hired under FSE-financed contracts (World Bank 1992:iii; Graham 1992:1235), while most jobs were obtained by people who had already been employed by the construction sector before the adjustment measures (Avila 1991). Not included in the figures of indirect beneficiaries are the approximately 12–15,000 ex-civil servants who found employment in (new) NGOs contracted to implement FSE activities.

In conclusion, the direct and indirect employment generated was substantial and the incomes of those employed in FSE financed projects increased. While the FSE achieved its objective of generating employment (although hardly in its target group), it should be observed that most of the jobs created were temporary. Because the FSE hardly invested in the productive sector, it provided no permanent structural solution to the problem.

The Social Investment Fund did not aim to expand earning opportunities. Consequently, after 1991 the employment generating capacity of the social fund diminished.

### *Social indicators*

Social macro indicators reveal the effects of the funds in improving social services and welfare. In Bolivia, the monitoring of social indicators is less developed than for economic indicators. Although the quality and reliability of the social indicators remain fairly poor (due to the lack of reliable base-line data) most data indicate improvements during the

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<sup>9</sup> The World Bank assessed that for each directly employed person, 1.13 additional indirect temporary jobs were created.

1980s and have continued to improve during the 1990s. Mortality rates have decreased, life expectancy has increased, illiteracy is falling and a greater proportion of the population has obtained access to basic services, such as water and sanitation. However, in terms of many of the health indicators, there are still considerable gaps between Bolivia and the rest of the continent.

The observed improvements in national social indicators are the result of the combined efforts of the public and private sectors. The contributions by both the FSE and the FIS to these improvements are difficult to determine methodologically.

According to Salinas (1995:15–17), the FSE was not the most effective instrument in improving social indicators at a national level, since it did not allocate its resources to the most needed social strata, sectors or regions, but responded only to requests for financing. Its resources were therefore allocated to those groups and areas with the highest capacity to formulate projects and with the best access to the FSE. In addition, the low level of appraisal and supervision of activities, as a result of efforts to keep operating costs as low as possible, could not guarantee the required product or quality of the service. The demand-driven approach had a number of drawbacks (Whitehead 1995:55), the most important of which was its lack of linkage with any development strategy.

The FIS added to this approach an active promotion among vulnerable groups and in remote areas, and prioritized its projects on the base of a poverty map, focusing on areas with the most severe shortages in social services. At a later stage, activities were further focused on a limited number of provinces and, since 1995, on a limited number of priority municipalities. The current FIS no longer aims to improve indicators at a national level, and its contribution is more an indirect one, since it assists in creating an enabling environment for other social programmes with a higher impact on indicators, such as the Educational Reform.

The FIS carried out a baseline study in 1993, which might facilitate evaluation of its effectiveness during a scheduled impact study in 1998. In 1995, UDAPSO attempted to measure some significant effects of the FIS statistically. The study confirmed that direct causality between FIS activities and social indicators is hard to prove. For example, the study reveals that FIS-assisted health centres attend 50% more patients than other centres, but there is no evidence that the most frequently occurring diseases, such as diarrhoea or respiratory complaints have diminished more in areas covered by the FIS centres than elsewhere. Similarly, in schools assisted by the FIS, drop-out rates are lower and the performance of pupils has improved, but there is no statistical evidence that enrolment rates have increased in the regions covered by FIS-assisted schools.

These conclusions coincide with the results of the survey carried out by IOB (see 6.5.2.) indicating that new infrastructure in education frequently replaced and/or extended existing facilities. As a result the number of pupils per classroom fell, while the new facilities attracted school children from nearby communities, abandoning their own schools. Consequently, while enrolment normally increases in FIS-assisted schools, total enrolment at subregional level has not automatically increased. Drop-out rates have decreased, thanks to greater parental confidence in the education system.

Changes in the main social indicators regarding health and education are presented in table 2.2. The improvement in indicators does not mean that the requirements have been satisfied. According to the poverty map of the Ministry of Human Development (1994), more than 90 percent of the rural population is still affected by unsatisfied basic needs. High illiteracy levels and low levels of educational attainment, particularly in rural areas and among the indigenous and female population, are related to the inadequate coverage, quality and efficiency of the education system. Health indicators have improved, but under-investment in preventive health care and health services in the rural areas are due to poorly defined sectoral priorities (World Bank 1996a:i-iii).

In conclusion, social indicators have improved over time, but are still far below the averages for the continent. It is likely that social indicators have improved as a result the social funds, since these funds have attracted sizeable amounts of external resources which have been invested in the social sectors; and these are investments which would probably not have taken place, or to a lesser extent, without the existence of the social funds. In practice, however, it is difficult to determine to what extent these improvements can be attributed to the social funds, for the following reasons:

- methodological difficulties in attributing changes to a single cause. Changes in indicators result from the combined efforts of various factors, while only part of the achievements can be attributed to the social funds. In addition, the funds have taken over the implementation functions of the sectoral ministries;
- poor targeting of the FSE;
- the enabling character (for other social programmes with a more direct impact) of the FIS in its later stages.

### ***6.3.2 Effects on Bolivian social policy***

It is generally believed that both the FSE and the FIS were effective in achieving their 'higher objectives', such as reestablishing confidence in the state and government, and in demonstrating the presence of the state nationwide. Both funds helped to bring about important changes in attitudes and political views. Before 1985, providing social services

to 'the poor' was often seen as charity, as an 'expense'; there is now an almost nationwide consensus that social services are an investment required to develop human resources.

With the establishment of the FSE, the government demonstrated that, while undertaking austerity measures to achieve economic stabilization, it had not forgotten those sectors of the population who might suffer most from these measures. Although the FSE was initially received with scepticism, its responsiveness and results contributed to improving the image of the Government and helped to sustain the economic adjustment programme.

Where the social funds were initially considered only to be means of financing social policies, it was sometimes claimed at a later stage that they should contribute to conceptual innovation and the definition of social policies. However, the FIS has never determined social policies, but has contributed to policy formulation, mainly as a complement to the overall policies set by the sector ministries and within the context of broader government policies, such as the popular participation law. The FIS is now seen as a facilitating and feedback mechanism of social policy. Both the FSE and the FIS have contributed substantially to the definition of strategies at sector level and have developed instruments and methods for their implementation (e.g. norms for infrastructure, new designs) (Balcázar 1996:18).

### ***6.3.3 Effects on institutional capacity***

In 1986, one of the principal arguments for establishing a separate institution for the implementation of the social fund was the lack of efficiency of the existing line ministries, and it was assumed that an autonomous entity would be less affected by austerity measures in the context of stabilization. Although this argument was definitely true in 1986, with the process of administrative reforms now complete, it is no longer valid.

The FSE operated on its own, never taking into account sectoral or regional plans, or municipal plans or strategies. It was a direct response to demand for financial assistance and not a planning institution. Initially, the FSE did not even verify projects with line ministries and only after 1989 did it make any effort to gear its actions to national development plans, or to coordinate with the line ministries.

During the 1991–93 period, there was a lack of coordination between the FIS and the ministries (i.e. health and education). In many cases the FIS financed projects without the consent of the ministry involved, or with only a formal ('paper') approval. This situation changed from early 1994 onwards, and even more after the approval of the popular participation law. Since early 1995, the FIS has been in the process of

subordinating the financing of projects to the policies and priorities of the sector ministries. The National Commission on Social Policy, which includes the secretariats of Education and Health, approves the FIS's work programmes. There is increasing coordination with the departmental authorities, the *Prefecturas* (Prefectures) regarding planning procedures, budget allocation and the setting of priorities among the municipalities.

Institutional relations with the NGOs have varied over time. While, during the FSE period, NGOs and other civil society groups were directly involved in the planning and implementation of activities, this initially changed with the initiation of the FIS, when private firms were contracted to implement projects. Gradually a new pattern of relations developed between the FIS and the NGOs and during FIS-I a total of 101 NGOs carried out 197 subprojects to a value of about US\$ 7.2 million (12% of the total), mainly in the field of non-formal education and in health care delivery. According to an audit, the NGO's performance varied from excellent to poor, with some cases of inefficiency and mismanagement (World Bank 1996b:24).

#### ***6.3.4 Micro-level effects of investments in social infrastructure***

Micro-level performance was mainly measured in terms of the product ('output') of the FSE and the FIS. Effect evaluations have only been carried out since 1995.

The following paragraphs classify some of these effects according to the three priority areas of Dutch development cooperation: poverty alleviation, women and development, and environment. The last two criteria were not explicit objectives of the social funds. The FIS has only paid special attention to the gender-related aspects of its activities since 1994.

##### *Effects on poverty alleviation*

Both the FSE and the FIS were targeted at the poor population. The effects of the activities on poverty alleviation has been subject to considerable debate. During the FSE period no specific definition of poverty was being used in Bolivia. Since 1990 poverty is usually defined on the basis of the Unsatisfied Basic Needs Index and the Headcount Index (see box 3). Only in recent studies (World Bank 1996a) poverty has been differentiated by age, gender and ethnic characteristics. Poverty in Bolivia is still widespread and severe, especially in rural areas, where extreme poverty is prevalent. In 1992, about 70% of the overall population (and 95% of the rural population) was estimated to be poor (World Bank 1996a:i).



Regarding the effects of the FSE on poverty relief, Newman, Jorgensen and Pradhan (1991) concluded that the fund had been rather successful in disbursements to projects aimed at poor population groups. Remuneration levels for temporary labour increased substantially, in both absolute and relative terms, and poor population groups benefited from that. However, only 5% of the rural poor population and 10% of the unemployed in the country benefited from the FSE (Stewart and van der Geest 1994: 13–15).

While the objectives of the FSE were formulated in terms of employment generation for those population groups affected by the economic adjustment measures, the ‘poorest of the poor’ benefited less from the FSE than was initially expected (World Bank 1992: vi and Graham 1992:1235). In addition:

- the ‘new poor’ were not among the poorest strata of the population, since the poorest were hardly hit by changes in relative prices, although they were affected by the abolition of subsidies and they suffered from diminishing access to social services (e.g. cost recovery);
- the poorest were already poor before the start of the adjustment programme and the causes of their poverty were more structural than conjunctural.

On the basis of a permanent household survey, Graham classified the country’s provinces into five groups according to their poverty level. The coverage of these poverty levels by the FSE is presented in the following table:

**Table 6.10 FSE disbursements per capita, according to poverty level of areas**

Poverty level	1985 population in millions	FSE disbursements in US\$ per capita
I (least poor)	2.3	24.0
II	0.7	27.8
III	1.3	13.5
IV	1.4	11.7
V (poorest)	0.6	9.5
national	6.4	18.2

Source: Carol Graham 1992.

While the FSE was criticized for not having reached the poorest in the society, particularly those in the rural areas, the FIS was designed to perform better. The Staff Appraisal Report emphasized an almost exclusive attention to the ‘poorest of the poor’ (World Bank 1990b:74–77), although it observed that ‘cost will limit the degree to which the FIS can effectively deliver benefits to the poorest population’. The FIS targeted its programmes more and more on the poorest areas in the country, but the right type of targeting (*focalización*) became a methodological issue.

The World Bank (1996b:38) concluded that “the FIS’s experience has demonstrated that a development approach based primarily on the social sectors has only a limited effect on poverty. While the FIS has undoubtedly improved access to social services for the target populations, it has no impact on incomes”. In practice, the poverty relief effects of FIS have yet to be proven, for example by the first impact study to be carried out in 1997. Preliminary studies by UDAPSO (1993) indicate that the FIS is reaching its target population in 80 priority provinces and has benefited 1.5 million people (about 20% of the total population).

### *Effects on women*

The gender-differentiated effects of the FSE and the FIS have been subject to several studies. The FSE did not have a gender-differentiated policy or approach, although it did have specific service-related projects aimed at women (e.g. mother–child care). In general, activities were intended to benefit ‘the family’, or were ‘specially for women’ (Vivian 1994). 99% of staff employed by the FSE and the FIS up to 1992 were male (World Bank 1992:7; Stewart and van der Geest 1994:15). The FSE did generate employment for women, but not in the way that was intended. In most self-help schemes the women worked without remuneration on those activities considered to be the community counterpart contribution. In total person-months invested (both paid and unpaid) the women’s share has been estimated at 35%, but of all paid labour only 1% was carried out by women.

From the start, the FIS considered women a ‘vulnerable’ group, to be targeted for intervention. However, no gender policy was developed until 1994. The FIS-I initiated a number of projects focused on women, such as mother and child health care, and training courses for women. During the FIS-I period, 14.4 % of all resources were targeted at women (table 6.11).

**Table 6.11 FIS-I funded projects, focused on women**

Type of programme	Number of projects	Amount disbursed ('000 US\$)	Number of beneficiaries
infant nutrition centres	16	667.0	3,610
training programmes	28	2,705.6	61,933
programmes for lactating mothers and substitute mothers	12	1,868.7	30,872
literacy programmes	na	na	na
Total	56	5,251.3	96,415

Source: World Bank 1995.

**Box 10. The Mariaca health centre**

In 1992, the FIS financed the construction of the Mariaca health centre in Cornelio Saavedra for an amount of US\$ 39,471. The centre attends about 1,500 families from 7 villages. Before the existence of the centre the medical services were provided by the village health attendant in a private house. The centre has 9 different rooms, 2 of which are for the accommodation of the medical attendants. The centre is fully equipped according to the standards set by the Secretariat for Public Health. Electricity is supplied by a solar panel. The facilities are in good condition and well maintained. Due to lack of water, the toilets cannot be used.

The centre is mostly used for preventive health care (vaccination, training), mother-and-child care and child delivery. The centre attends to an average of six patients daily, which is rather low compared to similar centres in other regions.

In the three effect evaluations carried out by the FIS, on water supply (FIS 1995a), health facilities (FIS 1995b) and formal education (FIS 1996b), little attention was paid to differentiating the effects on the beneficiaries by gender, but women seem to have benefited most and most directly from a water supply, which saves them time and effort in collecting potable water (FIS 1995a:8). In the records of persons attending health centres constructed by the FIS, women largely outnumber men. Two observations place this prevalence into perspective:

- in the rural areas evaluated by the FIS study, women outnumber men generally, as a result of large-scale male migration;
- the services provided by the health centres are to a large extent directed at children, such as vaccination and growth and weight measurement: mothers more usually accompany their children.

In areas with FIS health centres, the percentage of pregnant women that attend the centres for prenatal control is higher than the regional average, but the percentage that give birth at the centres is not higher than elsewhere: 50–60% of all pregnant women consult an FIS health centre at least once, but only 10–20% make use of the centre for giving birth (FIS 1995b:24).

The enrolment rate for females has increased and the illiteracy rate has decreased during the last decade, indicating that more girls receive formal education than in the past. However, there is no indication that the education gap between genders will be closed as a result of FIS investments. According to the FIS evaluation, girls abandon primary education more frequently and much earlier than boys (FIS 1996b:16).

It has been concluded that women have not benefited from the generation of temporary employment and income resulting from FSE activities, while the projects financed by the FIS and aimed at women were largely assistance-oriented. The social assistance

subprojects which focused on the health and nutrition of pregnant women, lactating mothers, and their infants were effective (World Bank 1992:iv), but had no specific gender focus. Only since 1994 has a gender approach been introduced and women are actively involved in the identification, planning and implementation processes of subprojects.

### *Environmental effects*

Although the FSE programme included reforestation programmes (2,300 hectares) and river protection works (417,000 m<sup>3</sup>), it is unknown whether these activities have had positive environmental effects. Contrary to the findings of the World Bank indicating that there were no significant detrimental effects on the environment (1992: 10), negative environmental effects are known to have occurred due to the insufficient planning of water supply projects (e.g. exhaustion of water sources and syphoning off of currents affecting groundwater levels), the lack of water management (water used upstream affects users downstream) and the absence of consolidation (soil erosion due to inadequate use of irrigation works). The FIS does not have a special environmental programme, although in 1996 it introduced a special subprogramme for urban solid waste projects. There is no particular evidence to suggest that FIS activities, including water supply projects, have caused serious harm to the environment.

In the three effect evaluations carried out by the FIS (1995a, 1995b, 1996b) no attention was paid to the direct or indirect environmental impact of the FIS investments.

## **6.4 Efficiency of the support for social funds**

The efficiency of the support for the social funds was evaluated in terms of time efficiency and procedures, and the allocation of resources.

### *Time efficiency and procedures*

The economies of scale have made a significant contribution to the time efficiency of the support for the social investment funds. The funds implement large numbers of projects, operate nationwide and apply the same method. For donors they are usually an efficient instrument.

DGIS appraisal guidelines for programme aid were published (1994) several years after the Netherlands started supporting the social funds. The fact that the funds finance large numbers of individual projects has contributed to a certain ambiguity in the DGIS appraisal and monitoring criteria, with project aid criteria being applied initially.

Procedures for disbursement, the approval of subprojects, monitoring and evaluation were set by the World Bank. The administration by the Bank lacked efficiency. Information about progress, results and reviews was sent too late or simply not shared at all among the co-financing bilateral partners. The administrative 'under-estimation' of over Dfl. 3 million at the financial closure of the FSE, as well as friction with the World Bank surrounding procedural questions contributed to the Dutch decision not to pledge additional resources to the Bank's FIS-II credit in 1993. In 1993, supervision responsibilities were transferred to the World Bank resident mission improving the IDA's response time and reducing the overall supervision costs<sup>10</sup> (World Bank 1996b: 35).

More important than the efficiency in procedures, has been the efficiency of the social funds themselves. The FSE was created as a semi-autonomous institution in order to be free from bureaucratic red-tape. The FSE's policy was to keep operating costs as low as possible. Quick disbursement in response to beneficiary demand prevailed over regulations and procedures. Consequently, the average time required between the receipt of a project proposal and the first disbursement was relatively short (on average 104 days). However, the number of supervisors was very limited, and each had to deal with large numbers of projects. Although the FSE's internal procedures were clear and well documented (and generally recognized as one of the FSE's merits), monitoring was carried out only on procedures and the physical progress made in construction works, not including need assessments, consolidation and sustainability aspects.

With the creation of the FIS more attention was paid to the active promotion of demand among the target population (remote areas, groups living in extreme poverty), planning procedures, differentiation in projects and legal aspects. Improved supervision and the introduction of monitoring and evaluation were supposed to contribute to a better product. Regulations and procedures required more time and the period between the submittal of a project proposal and the first disbursement increased (initially this period increased up to an average of 420 days, but after 1994 it fell again to 160 days).

Inadequate project formulation, legal problems and delays in construction contributed to prolonged project cycles. Of the over 2,100 projects approved between 1991 and the end of 1995, 900 completed the construction stage, while only 325 were concluded financially and administratively (i.e. they submitted a project completion report).

The time planning in relation to the availability of financial resources has not always been adequate. In 1993 the FIS had approved projects valued at amounts far beyond the

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<sup>10</sup> The World Bank classified IDA's performance as 'generally satisfactory throughout the implementation period of FIS', but questions simultaneously 'whether more flexibility should be introduced in the procurement guidelines' (World Bank 1996b:35).

financial commitments made by the external financiers (the approval of newly submitted projects was discontinued for some time), while in 1995 FIS disbursements were behind schedule by about 38% because of the long time between approval and completion of the subprojects (World Bank 1996b:13).

### *Efficiency in resource allocation*

All subprojects approved were rather small scale. While the FSE had no formal upper limits (the average expenditure per project was approximately US\$ 70,000), the FIS applied a project maximum of US\$ 500,000 (average cost per project US\$ 45,000). Sub-projects were directly supervised and monitored by the World Bank. The Dutch contribution was disbursed according to the procedures set by the World Bank. Procedures and supervision were strict, rigid and sometimes excessive. Up to 1993, in addition to any new type of project, all non-standard (even minor) expenditures had to be approved ex-ante by Washington. Financial procedures were slow, troublesome and complicated.

Both the FSE and the FIS were relatively small semi-governmental bodies. The FSE was proud to keep its administrative costs as low as possible (not exceeding 3%), but that could be done only at a certain cost, e.g. by sacrificing proper supervision and monitoring. The FIS could not maintain these low administrative costs, and the projected operational costs of 8% increased gradually to 17% (1990 appraisal estimates were only 4%). After the World Bank mid-term review in 1993, efforts were made to reduce these costs and in 1996 operational cost fell again to 11%, although this was mainly the result of the portfolio increase.<sup>11</sup>

During the FSE period budget provisions were usually not made for recurrent costs, such as additional staff (teachers, health attendants) or equipment. And even if the line ministries were informed, the recurrent cost implications could not be covered by additional budget allocations, since the economic stabilization programme required austerity in public expenditure.

Apart from the operational efficiency in resource allocation described above, Stewart and van der Geest (1994: 13,14) investigated the efficiency in reaching the target groups. They indicated inefficiencies due to two types of targeting errors. First, errors arise when benefits reach people who are not in need and hence are not part of the target group. The second type of error occurs where needs remain unsatisfied among the target group,

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<sup>11</sup> Operational costs are expressed as a percentage of the total volume of expenditure. So if the amount spent on investments increases, the relative weight of operational costs declines. After the decentralization and popular participation laws were approved, the volume of subprojects increased substantially. It was estimated that FIS would approve a portfolio of US\$ 40 million in project financing for 1996.

because only some of the target group has been reached.<sup>12</sup> Targeting of the FSE was rather weak, since two-thirds of the direct beneficiaries were not among the poorest groups and did not belong to the two lowest income deciles. The FSE failed to reach 95% of the rural population, 99% of the female poor and 90% of the unemployed (Stewart and van der Geest 1994:15, 22). The study did not include the indirect beneficiaries. Similar studies have not been carried out on the FIS performance. Although it is the common opinion among donors that the FIS is less efficient than the FSE (since it requires higher operational costs and its procedures are more complicated) in terms of resource allocation the FIS seems to be more efficient, thanks to more precise targeting.

## **6.5 Sustainability**

A distinction is made between the sustainability of the social fund itself and the sustainability and durability of the projects and services financed by the fund.

### ***6.5.1 The permanent or temporary nature of social funds***

DGIS considers a gradually increasing financial coverage by national resources, as well as a temporary character, important factors for pledging financial support to social safety nets (DGIS 1994:21 and Ministry of Foreign Affairs 1996:10). Both aspects were analysed.

The FSE was 'designed as a temporary institution, not to be sustained over the medium term' (World Bank, 1992:iv) while the FIS started as a short-to-medium term temporary institution, but with no specific time limit (World Bank 1996b:7). It was envisaged that the FIS would be phased out as the sectoral agencies acquired the necessary project planning, execution and evaluation capabilities (World Bank 1996b:8). Over time, however, the FIS has become more institutionalized and does not show signs of turning over functions to the sector ministries.

Some countries, like Chile, have institutionalized their social funds into permanent systems. Apart from being a political decision to institutionalize a social fund, it is also an expression of the changed roles and functions of the public sector. While, before 1985, ministries had normative, executive and control functions, a decade later the 'slimmed down' ministries have strengthened their normative and control functions, but transferred most executive tasks. So even if the FIS would wish to transfer its functions to line

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<sup>12</sup> These are known as E-errors (excess benefits) and F-errors (failing beneficiaries) (Stewart and van der Geest 1994:13). Results reaching the target group, but with a negative impact might be considered a third inefficiency (U-error).

ministries, these functions no longer belong to the current domain of action of these ministries. The role and mandate of the FIS in the long-term is rather unclear: its permanency is not explicit, and the institution has proven to be sufficiently dynamic and versatile to adapt itself to changing circumstances. Although the lifetime of the FIS is open ended, it is generally believed that its tasks will be integrated or assumed by other bodies, when time and policies require them to do so. The most likely bodies to assume these functions are the regional and local governments. Currently, coordination with the departmental authorities (*prefectura*) has been intensified. Consequently, the lifespan of the FIS will not depend on the ministries' capacities to (re-)assume these functions, but on the government's strategy for further decentralizing investments in the social sectors.

While approximately 60% of the financing for other social funds in the region (e.g. Peru, Chile) is provided from national resources, the FIS is almost completely dependent on foreign financing. Between 1990 and 1995, external donors financed 81% of the total costs, while the central government and municipalities financed 16%. The remaining 3% was financed by the requesting agencies and beneficiaries, significantly less than the 18% that was anticipated (but in-kind contributions from communities were not valued).

Although this appears to be a sign of lack of sustainability, it should be noted that:

- it is no longer the intention to increase the national share in the budget for sub-project financing, but it is the government's aim to cover the operational costs of the FIS with national resources, and to use the external resources for investments only. In 1996, almost 100% of external resources were used for project financing only, while the municipalities covered the major part of the operational costs;
- in the government's view, the FIS has become an external fund raiser, additional to Bolivian efforts in the social sectors, which are more and more channelled through the municipalities. There are various reasons for this:
  - international promotion and fund raising cannot be decentralized;
  - municipalities cannot individually negotiate international donor support;
  - international loans are the sole responsibility of central government.
- a new function of the FIS aims at transferring tasks in the long run to the regional and local authorities: the training of staff, the adjustment of planning and implementation procedures and the transfer of experiences in e.g. legal aspects.

It is important to stress the changes which resulted from the popular participation law (1996) and the decentralization of FIS implementation:

- since 1995 the national contribution to project financing has averaged 30%, including counterpart financing by municipalities, which covers approximately 25%, and by communities (5%). The ultimate objective of the FIS is to achieve a 50%–50% distribution;



- the volume of investments increased considerably to about US\$ 40 million per year;
- there is an improved potential for maintenance and sustainability resulting from the transfer of the ownership of most social infrastructure to the municipalities.

While the participation of national financing in the FIS as an entity might be below the expectations of the donors, the national share in project financing in the social sector has increased substantially and is expected to be sustainable. This is due to:

- increased financing by local tax revenue generation;
- improved systems of user contributions and cost recovery systems.

In conclusion, the yardstick for the sustainability of the FIS is not (only) the capacity to continue financing the fund with national financial resources, but the capacity to continuously finance the extension, improvement and maintenance of social services. This does not necessarily depend on funds from the national budget, but could also be covered by local government resources. In Bolivia, sustainability in providing and maintaining social services depends therefore on two processes:

- the process of decentralized budgeting, whereby increasing financial resources are being allocated to the social sector by local governments, and not through the FIS alone;
- the increased capacity of local governments and users to contribute to the costs of social services.

With the above interpretation of sustainability, the DGIS condition regarding the gradual increase of national financial contributions to the social funds should be interpreted with flexibility. The sustainability of the instrument (the social fund) is less important than the sustainability of the public capacity to continue providing and maintaining social services.

### ***6.5.2 Use and maintenance of projects***

At the micro level the sustainability of individual subprojects was evaluated, on the basis of the following criteria:

- the use, consolidation and maintenance of the projects;
- the capacity to cover the recurrent costs.

During the FSE programme, as well as the initial years of the FIS, hardly any attention was paid to the consolidation and sustainability aspects of the individual subprojects. Since the FSE only responded to financing demands, the sustainability was assumed to be implicit and guaranteed: the requesting organization was supposed to make proper use of

the funds to equip, consolidate and maintain the project. Since the FSE implemented many projects, even without informing the line ministries, no budget provisions were made for recurrent costs, such as additional staff (teachers, health attendants) or equipment.

The FIS initially 'solved' the problem by requiring a document from the recipient organization or community committing itself to take responsibility for the project in the future. This was, however, only a formal solution on paper. No training was provided in maintenance or in the generation of resources which could enable the recipients to comply with their written commitment. Although the FIS formally informed the line ministries, and even calculated the recurrent cost implications, during the first years the incorporation of these costs in the sectoral budgets was never a condition for the approval of proposals. After the 1993 mid-term review, the FIS made various provisions in its procedures to improve the sustainability of its projects.

The World Bank concluded (1995:6) that 'some early projects might not be sustainable', particularly in the areas of health and sanitation (FIS-I). FIS financing of health infrastructure was even suspended in 1995, because virtually none of the completed centres were operative due to shortages of staff, supplies and equipment.

The participative planning procedures, implemented since 1994, have contributed to higher sustainability, since beneficiaries are included from the early stages of the project. Almost simultaneously the popular participation law solved a number of problems regarding ownership and hence responsibility for the physical maintenance of the infrastructure. The municipalities are now responsible for all major maintenance.

The IOB carried out an evaluation of the use and maintenance of projects implemented by both the FSE and the FIS in Cochabamba and Potosí. The evaluation<sup>13</sup> was carried out at three levels:

- technical condition and maintenance status of the infrastructure;
- use and equipment of the facilities;
- user appreciation.

The universe (see table 6.12) consisted of the projects funded with financial resources of Dutch origin (including projects financed with countervalue funds obtained from the import support programme). The sample was restricted to the Potosí and Cochabamba departments. Data was processed from 18 educational centres, 4 primary health care

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<sup>13</sup> A selective sample was taken (not a random one) on the basis of equal representation of projects implemented by the FSE and the FIS in provinces where Dutch bilateral aid projects were being carried out. Subprojects were selected in 6 provinces in Cochabamba and 5 in Potosí. In the survey preference was given to educational centres in rural areas.

**Table 6.12 Universe of projects financed with resources from Dutch origin**

Sector	FSE national	FSE Cocha bamba	FSE Potosí	FIS national	FIS Cocha bamba	FIS Potosí	Total national	Total Cochabamba and Potosí
education	291	8	48	124	13	14	415	83
primary	74	1	4	57	0	6	131	11
health care								
water supply	29	3	0	23	0	1	52	4
others	530						530	
total	924	12	52	204	13	21	1,128	98

Source: Elaboration based on FIS data.

centres and 4 water supply systems. The sample does not allow statistically significant conclusions to be drawn. Nevertheless, the findings are believed to be indicative for the departments of Cochabamba and Potosí.

### *Status and maintenance of infrastructure*

#### *Educational centres*

All projects were being used for their original purpose. On average, the infrastructure of schools complied with the standards set by the Secretariat of Education. Some deficiencies were observed in some of the older facilities financed by the FSE. The construction of all FIS infrastructure is of high quality, although many schools had cement floors of a poor mixture. Infrastructural problems included leakages in gutters and drainpipes, causing water erosion in the foundation of the buildings. The nursery schools and the boarding schools visited were in bad condition, mainly due to lack of maintenance and missing equipment.

Of the 18 schools visited, only 2 have fully operational toilet facilities. Most have the facilities, but they are damaged or have been closed in order to avoid damage. In one case (Kellu Cocha in Potosí) the toilet building is used as housing for the teachers. Only one school visited has toilets connected to the sewerage system, all others use septic tanks, which have not received any maintenance. In some cases the bacterial life in the septic tanks has been seriously affected by the use of chemical cleaning products. In Cochabamba only 50% of the schools visited had fences, in Potosí this was only 20%. Only one third of the schools have a play-ground. Almost all suffer from broken windows with, on average, 20% of all glass broken. Most schools have insufficient or damaged lighting (no bulbs, broken sockets and switches). In some cases the damaged equipment and open wiring present a direct health hazard to the children.

*Primary health centres*

The infrastructure of health facilities financed by both the FSE and the FIS are in excellent condition and comply with the requirements set by the Secretariat for Health. All FIS health centres have solar panels for electricity supply and housing for the health attendants. Half of the centres suffer from problems with the toilet facilities and water supply.

*Water supply*

Water supply installations are in good to excellent condition. Tanks are well constructed and in one case only minor leakages have been observed. The systems visited are all operational. Problems reported include insufficient water supply to the system, and broken or leaking tubes and connections. Community tap systems show more deficiencies and maintenance problems than systems with domestic connections.

*Staff and equipment**Educational centres*

All schools in Cochabamba have sufficient teachers. In Potosí, in particular in the more remote villages, there is a shortage of teachers. The larger centres suffer from insufficient support personnel (watchmen, administrative assistance). Most schools have school desks and seats supplied by either the FSE or the FIS. The average shortage of desks and seats is 10–20%. Serious shortages of desks, seats, tables and bookshelves for the teachers were observed. Maintenance of school furniture is very poor. The number of blackboards is insufficient; most are damaged or schools have no chalk. In some classrooms, particularly the multigrade, more than one single blackboard per classroom is required: each grade should have its own blackboard, so the observed ratio of 0.75 blackboards per classroom represents a too 'optimistic' view. With only two exceptions, none of the schools visited had sufficient teaching materials. On average there is one textbook per four pupils (Potosí), even in pilot schools operating under the Educational Reform programme. Teacher textbooks are absent, obsolete or have to be shared by a number of teachers. Most schools do not have geographical maps, or any other teaching materials.

The status of the infrastructure and equipment of the educational centres visited is summarized in table 6.13.

*Primary health centres*

All centres had trained personnel. In the two hospitals visited shortages in qualified personnel were observed. In the centres constructed recently, the health attendants have motorcycles to visit nearby villages, while others have radio equipment to communicate with hospitals.

**Table 6.13 State of infrastructure and equipment of educational centres (in absolute numbers, n=18)**

Item	Good	Regular	Bad/very bad
overall impression of the infrastructure	9	8	1
condition of roof, ceiling and drainpipes	8	8	2
condition of walls and foundations	7	4	7
condition of doors and locks	6	9	3
condition of windows/glass	6	8	4
condition of electrical equipment	7	7	4
condition of school furniture	6	5	7
condition of toilets	3	4	11
no of desks, seats/student			0.80
no of blackboards/classroom			0.75
no of students/teacher			19
no of textbooks/student			0.25
no of students/classroom			24

The number of beds in the recently constructed and implemented centres are sufficient, but there are shortages in the older centres and hospitals. The condition of the equipment (medical supplies) varied from good to extremely deficient. Most medical equipment is rather old and does not meet modern standards.

#### *Water supply*

The projects visited had an organization (committee or cooperative) responsible for the maintenance of the water supply, including the application of chlorine. All communities with water supply systems have trained plumbers.

#### *Revenue generation for maintenance*

##### *Educational centres*

Most school teachers consider the municipality as being initially responsible for maintenance of the infrastructure. Only few schools distinguish between major and minor maintenance. Only two schools had a permanent form of fund raising for maintenance purposes.

All educational centres supported by church organizations or NGOs have superior maintenance levels. There is a direct relation between the level of organization and maintenance. None of the schools with deficient levels of maintenance have a parents' association or school assistance group (*junta de auxilio escolar*). All schools visited in Cochabamba have a parents association, while in Potosí this is only half.

### *Primary health centres*

None of the centres and hospitals visited have a system for raising funds for maintenance purposes and rely on future assistance from the FIS, the municipality or the Secretariat for Health. Existing cost recovery systems apply to medicine supply only.

### *Water supply*

Administering organizations charge a fee for the use of water, generating revenue for maintenance, for improvements and even for the expansion of the system.

It was concluded that:

- all infrastructure is being used for its original purpose and in many cases for additional purposes as well (e.g. schools as community centres). No abandoned projects were found;
- there is no significant difference in maintenance levels between projects implemented by the FSE or the FIS, notwithstanding differences in budget allocations for recurrent costs (initially no provisions were made for about half the infrastructure constructed by the FSE);
- in general, the maintenance level in Cochabamba was superior to that in Potosí;
- the best maintenance levels were observed in facilities which have additional resources, e.g. from churches or NGOs;
- revenue generation for maintenance purposes has only been organized for water supply projects;
- recurrent costs can be (partially) covered by revenue generation in drinking water projects only. Revenue generation in health centres is aimed at medicine supply only and no provisions have been made for cost recovery for other recurrent costs;
- the maintenance costs of educational centres are partially covered by ad-hoc fund raising by parents' associations; in most schools, no fees are charged;
- responsibility for major maintenance is not always defined, although most users indicate that municipalities are accountable.

## **6.6 Conclusions regarding Dutch support for social funds**

The support for social funds in Bolivia should be considered as sectoral budget aid.

The support to the FSE and the FIS has had a high policy relevance in relation to both the dramatic state of the social services in 1987 and to the priorities set by the Bolivian government. It also fitted in well with Dutch development cooperation policies in the Andes Region. Bolivia's efforts to obtain and coordinate donor support for the social funds were remarkably successful. The FIS plays a complementary and feedback role in defining social policies in Bolivia.

At the macro level, the effects of Dutch support for the social funds cannot be distinguished from those generated by other financing sources. In terms of attracting donated foreign exchange, the social funds have been successful (US\$ 110 million). Approximately 90% of the capital inflow was spent in national currency and had a positive impact on the current account deficit. The FSE activities made sizeable contributions to the Gross Domestic Product and in employment generation. The FSE represented between 0.6 and 2% of GDP during the 1986–90 period. The FIS has had less impact at the macroeconomic level, because it involves smaller annual investments and does not aim at employment generation.

During the FSE period, the increase in public expenditure in the social sectors was modest, but it gradually gathered momentum afterwards. Both the FSE and the FIS have been the government's main vehicle for public investment in the social sectors. The partial additionality of the external funds can be considered as the best alternative in terms of resource allocation.

Although the social funds have most likely contributed to improvement of the social indicators at a national level, this contribution is methodologically difficult to prove. They have contributed indirectly by creating an enabling environment (by means of improvements in and expansion of the infrastructure) for other programmes in the social sectors, such as Educational Reform. The FSE was not the most effective instrument in improving social indicators at a national level, since it did not allocate its resources to the most needy social strata, sectors or regions, but to those with the best capacity to formulate projects. The current FIS no longer aims to improve national indicators and preliminary studies indicate that the benefits of FIS financed projects should be interpreted carefully, because of a replacement effect (children abandoning the school in their village to attend a better FIS-financed school elsewhere).

The strategies of the FSE and the FIS to alleviate poverty were simple. The FSE aimed to provide short term employment and the FIS basic low-cost social services to the poor segments of the population. Both the FSE and the FIS were financing institutions and not implementing agencies, initially responding only to demand-driven proposals from communities and population groups.

The FSE had positive effects on poverty alleviation, although it did not directly reach its target group of 'new poor'. Only 10%–20% of the ex-miners were employed by the FSE. The poverty relief effects of the FIS have yet to be proven, but most likely it has enhanced the access of the poor to social services, but had no impact on incomes.

The effects on women have been negligible in terms of employment generation (FSE),

but positive effects have been observed in terms of use of the social infrastructure and services, in particular in drinking-water supply and health care projects.

The operating efficiency of the FSE was relatively high, maintaining low operational costs and quick disbursement procedures. However, efficiency in resource allocation was low, due to poor targeting. The FIS had better planning procedures and therefore allocated resources more efficiently, but higher operational and administrative costs. Until 1994, the efficiency of the World Bank in administrating the Dutch resources was low and deficient in terms of information sharing. The World Bank's supervision of subproject approval procedures for the FSE and FIS was slow and troublesome.

Regarding sustainability, it was concluded that the role of the FIS has changed over time. It has become an open ended institution, and one of its functions has become that of external fund-raiser to the social sector. Sustainability does not depend only on the public budget contributions to the FIS, but on national capacity to continue improving and maintaining social services, whether this is financed from national resources, local government funds or user contributions. The 1995 decentralization laws contribute to sustainability.

Although until 1993 little attention was given by either the FSE or the FIS to the consolidation and sustainability of subprojects, the ones evaluated (in particular educational centres) are usually well used and regularly maintained. However, there are deficiencies in the sanitary facilities, equipment and teaching materials.



## Annexes

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## Annexe 1 The Policy and Operations Evaluation Department (IOB)

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The Policy and Operations Evaluation Department, also known by its Dutch acronym IOB or *Inspectie Ontwikkelingssamenwerking en Beleidsevaluatie* is conducting evaluations of Dutch foreign policy as far as executed under the responsibility of the Minister of Foreign Affairs and the Minister for Development Cooperation. The IOB is part of the Ministry of Foreign Affairs. It is an independent unit which directly reports to the Minister concerned who submits the studies to Parliament. These reports are discussed with the Permanent Committee on Foreign Affairs with respect to follow-up actions.

The predecessor of the IOB, the Operations Review Unit IOV, was established in 1977 and carried out evaluation studies of Dutch aid policy only. Following a reassessment of the Dutch foreign policy in 1996, the mandate of the evaluation unit was broadened to include other fields of foreign policy as well. Initially IOB's emphasis was on individual project evaluations. About 250 such evaluation reports were produced. Since then, the emphasis has shifted from individual project evaluations to comprehensive thematic studies focusing on policies and modalities of implementation and covering sectors, themes or programmes. External independent experts participate in the various phases of the research under the responsibility of the evaluation department. Increasingly, institutions or experts in the recipient countries are invited to participate in the field work.

The final reports, based on the various field and desk studies, are written by IOB's own staff and published under its responsibility. Examples of thematic studies include: Evaluation and Monitoring, Interinstitutional Cooperation in Higher Education, Humanitarian Aid to Somalia, Environment and Development Cooperation, and Fertiliser Aid.

In 1994 studies were published on the Netherlands country programmes in India, Mali and Tanzania. Similar studies were initiated on the programmes in Bangladesh, Bolivia and Egypt. These latest studies also gave attention to non-aid bilateral relations between those countries and the Netherlands, in according with the IOB's new mandate. Authorities in recipient countries are kept abreast of the process of the evaluations and are invited to comment on draft reports. A reference group consisting of external experts and Ministry

staff is appointed for every study. The reference group has three functions: to advise on methodology and approach, to counsel on relevant development theories, and to give feedback on evaluation results.

Increasingly IOB participates in multi-donor evaluations. Examples are the evaluation of the World Food Programme, the European Union Programme Food Aid and Emergency Assistance to Rwanda.

## Annexe 2 Summary of the import support programme 1982–95

**Table A.1 Overview of principal requests for use of the balance-of-payments support programme**

Year	Request Bolivia	Response by the Netherlands
1982/83	fertilizers	approved
1982/83	insecticides	approved, only Diazinon
1982/83	medicines	approved
1982/83	veterinary products	initially approved, later rejected
1982/83	seed potatoes	no decision*
1984	fertilizers	approved
1984	insecticides	approved, only Diazinon
1984	Fokker F27 airplane	approved
1984	medicines	initially rejected, later approved with remaining funds 1982/83/84
1986	microwave communication radio ENTEL	rejected
1986	materials for AASANA (airports)	rejected
1986	chalk factory	rejected
1986	railway material	rejected
1986	experimental factory for balanced food production	no decision†
1986	spare parts Fokker F27 airplane	approved
1986	second airplane Fokker F27	rejected
1986	agricultural inputs and equipment	approved: threshers, mills, pumps, insecticides, and fertilisers
1986	SL Philips low-energy light bulbs	approved
1986	reimbursement pipes for YPFB	approved
1986	dredger-suction pump	rejected
1986	electricity turbine for Camiri	rejected, but implemented with reimbursed funds for YPFB invoices
1986**	popular housing scheme	rejected
1988/89**	fertilizers	approved
1989/90**	agricultural equipment and pumps	threshers and pumps approved
1989/90	medicines	rejected
1990/91**	fertilizers	approved
1990/91	medicines	rejected, but funded with resources for the Andes Region

Source: Based on DGIS files.

Notes: \*No decision: files do not contain any decision. \*\*In these years, part of or total allocations were used for debt relief.

**Table A.2 Volumes of fertilizer aid by formula and year (in metric tonnes mt)**

Year/type	Urea 46%	DAP				Total
		18-46-0	15-15-15	23-23-0	17-17-17	
1983/84	?	–	?	?	–	10,000
1985/86	2,911	–	2,530	4,585	–	10,026
1987	500	–	500	3,000	–	4,000
1988	1,000	–	1,000	3,400	–	5,400
1989	500	4,500	–	1,000	500	6,500
1990	2,000	3,000	–	500	1,000	6,500
1991	2,000	4,000	–	1,000	1,500	8,500
1992	1,500	3,000	–	500	1,000	6,000
1993	1,500	3,000	–	500	1,000	6,000
total	11,911	17,500	4,030	14,485	5,000	62,962

Source: Buitendijk 1995e.

Note: Until 1988 Urea 46%, 15-15-15 y 23-23-0 were supplied. From 1989 onwards Urea 46%, DAP 18-46-0 y 17-17-17 were delivered. Minor quantities of 17-50-0 are included in the data for DAP 18-46-0, since it is basically the same type of fertilizer.

**Table A.3 Volume of fertilizer aid by year and Department (mt)**

Year/Dept	Cocha-bamba	La Paz	Tarija	Potosí	Chuqui-saca	Sta Cruz	Total
1983/84	?	?	–	?	?	?	10,000
1985/86	2,316.5	2,322	–	2,496	1,135.5	1,725.5	9,995.5
1987	1,125	1,125	900	575	875	–	4,600
1988	1,150	1,250	1,150	750	1,100	–	5,400
1989	1,250	775	825	1,200	1,900	550	6,500
1990	1,450	750	800	1,400	1,500	600	6,500
1991	2,100	1,500	1,300	1,600	1,000	1,000	8,500
1992	1,800	1,500	800	800	700	300	5,900
1993	1,900	900	950	950	950	350	6,000
total							63,395

Source: Buitendijk 1995e.

Note: Differences in totals due to rounding-off errors.

**Table A.4 Intended destination and use of countervalue funds, import supply programme**

<b>Year</b>	<b>Destination</b>	<b>Destination according to Letter of Implementation or Agreement (US\$)</b>	<b>Countervalue funds used (US\$)</b>
1982/83	agricultural credit to smallholders	yes	0
	rural public health care	yes	0
	market building	not indicated	40,000
1984	agricultural credit to smallholders	yes	n.a.
	Social Emergency Fund	2,900,000	2,910,643
1986	Social Emergency Fund	yes	
	Agricultural Development Fund (Revolving Fund)	yes	1,226,900
	FAO Fertilizer project	400,000	400,000 + 5% of all fertilizers
	BAB marketing expenses CIAT, IBTA	15% 200,000 + 5% of all fertilizers	290,000
	institutional strengthening BAB	300,000	147,753
1988/89	Smallholder Development Fund	1,800,000	294,390
	FAO fertilizer project	800,000	175,000
	payment VAT	433,290	53,024
	institutional strengthening MACA	975,000	594,955
	Emergency plan Cochabamba	not indicated	100,000
	others, incl. BAB marketing expenses	15%	n.a.
1990/91	FAO Potosí Forestry project	not indicated	225,000
	FAO <i>Fertisuelos</i> project	400,000 + 5% fertilizers	364,966
	institutional strengthening MACA	yes	1,545,745
	consultancies SNAG	not indicated	91,885
	CIAT and IBTA	yes + fertilizers	694,102
	MACA/DIFEM administrative expenses	yes	2,243,913
	computerized land titles registration	not indicated	462,315
	strengthening Ministry of Human Development	not indicated	249,065
	strengthening Ministry of Finance, DICOPER	not indicated	420,315
	strengthening Office of Public Investment	not indicated	393,357
	others (7 activities)	not indicated	198,576

Source: Based on DGIS and DIFEM data.





## Annexe 3 Concepts and activities related to external debt relief

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### a. Concepts

(Long-term) *external debt* (EDT) is defined as debt that has an original or extended maturity of more than one year and that is owed to nonresidents and repayable in foreign currency, goods, or services. Long-term external debt has three components:

- *public debt*, which is an external obligation of a public debtor, including the national government, a political subdivision (or an agency of either), and autonomous public bodies,
- *publicly guaranteed debt*, which is an external obligation of a private debtor that is guaranteed for repayment by a public entity,
- *private nonguaranteed external debt*, which is an external obligation of a private debtor that is not guaranteed for repayment by a public entity.

The *domestic* public debt consists of the State's obligations to private organisations, bodies or individuals belonging to the private sector in Bolivia. Generally speaking, it is a debt in national currency in the form of (short-term) promissory notes and investment bonds. In most statistics the domestic debt is not taken into account in the figures on indebtedness.

External public and publicly guaranteed debt can be classified according to the financing source: *multilateral* debt originates from loans and credits from the World Bank, regional development banks, and other multilateral and intergovernmental agencies (international financing institutions); *bilateral* debt originates from loans from governments and their agencies (including central banks), loans from autonomous bodies, and direct loans from official export credit agencies; and *commercial debt or private bank* debt include bonds, loans from private banks and private financial institutions, as well as credits from manufacturers, exporters and bank credits covered by a guarantee of an export credit agency.

A particular type of both bilateral and multilateral debt is the *concessional debt*, which originates from the receipt of aid from official lenders at concessional terms as defined by

the Development Assistance Committee (DAC), that is, loans with (at least) an original grant element of 25% or more.

The total *contracted debt* is the sum of contracted loans which may or may not have actually been disbursed by the creditor; *disbursed debt* (or: long-term debt outstanding and disbursed—LDOD) are those loans which have actually been disbursed by the creditor, while the *total debt stock* is the sum owed by a country at any given moment, i.e. the loans which it has actually received and which have not yet been repaid (the net disbursements minus the repayment); the *net total debt* (or: net flows on debt) refers to the repayment of the principal only; the *gross total debt* owing at any given moment refers to the principal plus the servicing (interest, fines, commissions).

The *debt service* (LTDS) is the sum of principal repayments and interest (and commissions, fines) payments actually made over a prearranged period (usually a year). The *total debt service paid* (TDS) is debt service payments on total long-term debt (public and publicly guaranteed and private nonguaranteed), as well as on use of IMF credit. *Total debt flows* include disbursements, principal repayments, net flows and transfers on debt, and interest payments. *Debt stock rescheduling* refers to the formal deferment of payment of the external debt service through the application of new maturities to the amounts placed. *Debt forgiven* is the amount of principal due or in arrears that was written off or forgiven. *Refinanced debt* is the conversion into a new loan of the debt due to mature or which has already matured. *Debt stock reduction* is the amount that has been netted out of the stock of debt using debt conversion schemes such as buybacks and equity swaps or the discounted value of long-term bonds that were issued in exchange for outstanding debt. The term *buyback* is used for operations which do not entail local currency on the part of the debtor country. In the event that any payment in local currency forms a part of the transaction, it is referred to as *debt conversion* or *debt swap*. The *grace period* is the period between the coming into force of the loan and the first amortization of the principal. The creditor may or may not request the payment of interest during the period of grace. The *maturity period* is the period of grace plus the period of amortization. *Maturities* are the obligations of the principal, interest and commission resulting from the loan agreement signed between the creditor and the debtor; the difference between the sum due for repayment and the sum actually paid represents the *default sum* (arrears).

The *Gross National Product* is the measure of the total domestic and foreign output claimed by the residents of an economy, less the domestic output claimed by non-residents.

## b. Statistics

Debt statistics published by the Central Bank of Bolivia may differ from those published by the World Bank (Global Development Finance, World Debt Tables), because the World Bank includes short-term credits in its debt figures, while the Central Bank of Bolivia does not. Indebtedness indicators may also vary due to methodological differences, such as the period or duration in which the denominators are being expressed, for example: annual export earnings or three-year rolling averages; use of the GNP (World Bank) or GDP (Central Bank of Bolivia). In addition, the World Bank expresses some indicators in their present value, while the Central Bank of Bolivia publishes only in nominal values.

## c. Country classification

The country classification according to indebtedness is based on the World Bank criteria. Two ratios are used to classify indebtedness: the ratios of present value of total debt service to GNP and present value to export earnings. These ratios define the level of indebtedness in terms of two important aspects of a country's potential capacity to service the debt: exports (because they provide foreign exchange to service debt) and GNP (because this is the broadest measure of the income generation in an economy). The combination leads to the following indebtedness classification:

**Table B.1 Indebtedness classification according to World Bank criteria**

Income classification	Indebtedness classification		
	PV/XGS higher than 220% or PV/GNP higher than 80%	PV/XGS less than 220%, but higher than 132% or PV/GNP less than 80% but higher than 48%	PV/XGS less than 132% and PV/GNP less than 48%
low income: GNP per capita less than US\$ 725	severely indebted low income country (SILIC)	moderately indebted low-income country (MILIC)	less indebted low-income country (LILIC)
middle-income: GNP per capita between US\$ 726 and US\$ 8,955	severely indebted middle-income country (SIMIC)	moderately indebted middle-income country (MIMIC)	less indebted middle-income country (LIMIC)

Source: Source: World Bank 1996.

PV/XGS is present value of debt service to exports of goods and services.

**d. International agreements and plans to relieve the external debt**

*- The Paris Club*

The Paris Club, created in 1956, is an informal organization of creditor countries (mostly the OECD industrialized countries). It represents the interests of creditor governments and indirectly the interests of exporters. Formally, it deals with the commercial part of the bilateral debt, but concessional debt can be discussed at the same time. The Paris Club is permanently chaired by the French Minister of Finance and meets every month in Paris.

There are three kinds of Club meetings:

- meetings to determine general policy and strategy;
- the ‘tour d’horizons’, consisting of an analysis of the economic situation in general and of the debts in particular of a number of countries;
- meetings with the debtor countries.

The Dutch delegation is chaired by the Minister of Finance. The Ministry of Foreign Affairs (DGIS) only takes part in the general meetings and the ‘tour d’horizons’ and meets with debtor countries only if concessionary bilateral debt forms part of the arrangements to be agreed upon. The agreement (or negotiation) meetings are attended by the creditor countries and the debtor country, as well as by observers from the International Monetary Fund, the World Bank, sometimes the Inter-American Development Bank (or other regional banks), UNCTAD, and other international organizations.

In its general strategy, the Paris Club distinguishes categories of countries according to the terms used by the World Bank (income level and level of indebtedness). Debt restructuring can be granted only to countries categorized as Severely Indebted Low and Middle-Income Countries, and not to Moderately Indebted Low and Middle-Income Countries. In order to obtain joint treatment by the members of the Paris Club, a debtor country should have an agreement with the IMF on its macroeconomic policies.

The Paris Club establishes a framework arrangement between the creditors and a particular debtor country. Specific details (mainly on interest rates) have to be dealt with between the debtor country and each of the creditors individually.

Up to October 1988, the Paris Club arrangements predominantly entailed debt rescheduling. After that date, five major changes were introduced (Klein 1992:43):

- under exceptional circumstances, the Paris Club would consider cancelling or providing equivalent restructuring of the entire stock of a country’s official debt contracted before the cut-off date;

- the interest rates on consolidated non-concessional debt could be set below market rates;
- longer repayment periods for rescheduled non-concessional debt;
- a menu approach for creditors, under which they could choose the modality of debt relief; and
- a move towards equalizing burden sharing among creditors so that each creditor's debt relief agreement would achieve an agreed net present value target.

The first 'menu of options' involving debt reduction is known as the *Toronto Terms* (1988–91). It enabled the creditors to choose from three options (applicable only to eligible low income debtors):

On non-ODA debt:

- A forgiveness of one-third of the eligible maturities, and rescheduling the remainder two-thirds with a 14 years maturity, including 8 years of grace and market related interest rates to be negotiated bilaterally;
- B application of a long repayment period, viz. 25 years and 14 years of grace at market related interest rates to be negotiated bilaterally;
- C consolidation of the debt servicing at a favourable interest rate (3.5% below the market interest rate, or half the market interest rate if the latter were 7% or lower), with a repayment period of 14 years and 8 years of grace.

In addition, on ODA debt: a longer maturity of 25 year with 14 years grace period.

The Toronto Terms were originally intended to be for Sub-Saharan Africa, which had the worst social and economic indicators. Bolivia was the second country outside this region (Guyana was the first) to obtain this treatment.

In July 1991 the Group of Seven met in London and elaborated a new set of options, initially introduced for two low-income countries: Nicaragua and Benin. In January 1992 these terms were applied to Bolivia and Tanzania as well. These *London Terms* (or Enhanced Toronto Terms, 1991–94) included, for non-ODA debt:

- A Forgiveness of 50% of the consolidated debt, and rescheduling of the remainder at market rates, with repayment over 23 years, including a grace period of six years;
- B 100% restructuring of the principal and interests at concessional interest rates, so as to reduce by 50% in net present value terms due, with a 23 years repayment period, but without a grace period.

In addition, the ODA debt could be rescheduled to long repayment periods. To those creditor countries that were unable to grant concessional debt relief, the agreements allowed a third option, which consolidated debt at market rates, with repayment over 25 years, including 14 years grace.

In addition, for the ODA debt, swap arrangements, such as debt-for-nature and debt-for-equity, were introduced. For the non-ODA debt (and for middle income countries only) up to 10% of the eligible maturities could be converted.

In December 1994, the Paris Club agreed upon the so-called *Naples Terms* (1994–96) as a menu of options for the most severely indebted countries. The Naples Terms allow creditor countries to offer one of the following options:

On non-ODA debt:

- A the forgiveness of up to a maximum of 67% of the debt stock. The remainder will be consolidated with an amortization period of 23 years at a market interest rate; or
- B a maximum of 67% reduction in terms of net present value of the pending service obligations, payable over 33 years at concessionary rates of interest and with 6 years of grace.

In October 1996 during the G-7 summit meeting with the IMF-World Bank, openings were introduced to a maximum of 80% cancelling of stock of non-ODA debt for the HIPC's.

- *The Baker Plan*

In 1985, the Secretary of the Treasury of the United States at the time, James Baker, presented a strategy which recognized that a process of economic adjustment needs time and resources. His proposal for 'structural adjustment with growth' promised to mobilize new resources from the commercial banks to the tune of US\$ 20,000 million earmarked for 17 countries within three years. In addition, the US government would grant US\$ 9,000 million in bilateral loans. The Plan targeted mainly the middle income and larger debtor countries and consisted of three main elements:

- the adoption by the debtor countries of broad macroeconomic and structural policies aimed at economic growth, adjustment of the balance of payments and a strict control on inflation. These programmes should be supported by the IMF and the World Bank;
- the adoption of market oriented policies (elimination of price controls, levies, etc.) and increased private sector participation;
- an increased availability of credits from private banks in order to support the adjustment programmes.

In 1987 a change to the Baker Plan was announced, placing emphasis on the so-called *list of market options*. This list included ways of reducing the debt, such as the transformation of debt into bonds and debt swaps. The debt-for-equity swaps intended to achieve simultaneously a promotion of foreign investment, a reduction of the debt, and the repatriation of capital. The list of market options was the first recognition by the United States of the

overall problem of debt overhang, and debt was no longer perceived to be only a liquidity problem (Husain 1989).

*- The Brady Plan*

In March 1989, the succeeding Secretary of the Treasury of the United States, Nicholas Brady, announced a new framework for the problem of the commercial debt to private banks by—mainly—the larger debtor countries in Latin America. The Brady Plan proposed to boost policy reforms and economic growth in the debtor countries by means of case by case voluntary operations to reduce the commercial debt. The novelty of the Brady Plan lay in the explicit public support for the idea that the IMF, the World Bank and the creditor governments would lend resources to the debtor countries in order to finance a significant reduction in the debt, and it called upon the creditor countries to make use of legal, normative, fiscal and other instruments to encourage the commercial banks to take part in the process. It also proposed a more flexible policy by the IMF with respect to the guarantees required.

The Brady initiative passed from the conceptual to the practical stage very rapidly, involving US\$ 30,000 million from public funds to support the buyback operations or to guarantee debt swaps for bonds. The IMF and the World Bank also adopted various measures, such as the creation of the IDA Debt Reduction Facility in 1990.

*- The Initiative for the Americas*

In June 1990, the President of the United States at the time, George Bush, announced a package of measures to palliate the external debt burden of countries in Latin America and the Caribbean. It dealt almost exclusively with the bilateral debt to the United States. One of the elements of the plan was that additional funds were made available to the IDB, with the aim to join forces with the IMF and the World Bank.

*- IDA Debt Reduction Facility*

In 1989 the World Bank set up the IDA Debt Reduction Facility, authorizing the Bank to participate with contributions in the purchase of commercial debts up to a total of US\$ 10 million per transaction. A condition has always been that the purchase is a 'once and for all' action. Between 1989 and 1994 the IDA Debt Reduction Facility provided US\$ 56 million in grants and US\$ 60 million in donor contributions in order to reduce commercial debt for an amount of US\$ 814 million in 7 countries.

- *The Fifth Dimension*

The Fifth Dimension Programme is financed from repayments on IDA loans, and provides countries with a satisfactory macroeconomic programme up to 95% of the interest on existing IBRD loans. Between its creation in 1989 and end 1994 this facility disbursed more than US\$ 800 million. There is also a 'sixth dimension' and a 'seventh dimension'. The 'sixth dimension' enables to make use of funds generated by the commercial investments of the IBRD to contribute to the debt service by countries which are in arrears and which are in debt to the IBRD. The 'seventh dimension' is still in a proposal stage (1995) and contains an increase in shorter concessionary IDA loans for balance of payments support in order to alleviate liquidity problems to countries with severe service problems on multilateral debt.



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